BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY, Respondent.	DOCKET UE-130043

VOLUME IV

Pages 84 - 353

EVIDENTIARY HEARING BEFORE

ADMINISTRATIVE LAW JUDGE DENNIS L. MOSS

9:33 a.m. - 5:00 p.m.

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I N D E X

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REQUESTS

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EXHIBITS

EXHIBIT	OF	AD	DESCRIPTION
Bench Exhibit		91	Pacific Power General Business update August 13, 2013
SCH-18CX		146	PacifiCorp's Response to WUTC Data Request No. 79 (6 pages)
BNW-18CX		159	PacifiCorp's response to WUTC Data Request No. 288 (7 pages)
BNW-17CX		173	Excerpted pages 75-83 from Order 04, Docket UE-050684: Order Rejecting Tariffs, as filed; Rejecting Stipulation on Net Power Costs; Rejecting, in Part, and Accepting, in Part, Stipulation on Temperature Normalization Adjustment; Determining Cost of Capital (10 pages)
BNX-19CX		173	Long Term Debt Workpaper (1 page)
BNW-20CX		173	PacifiCorp's response to WUTC Data Request No. 275 (1 page)
MPG-24CX		200	Excerpt of Boise's Response to PacifiCorp Data Request 1.2

MPG-25CX	200	Excerpt of Prefiled Direct Testimony and Exhibits of Michael P. Gorman in Docket No. 11-035-200 (Public Service Commission of Utah) (5/31/2012)
MPG-26CX	200	Excerpt of Prefiled Rebuttal Testimony of Bruce N. Williams in Docket No. 11-035-200 (Public Service Commission of Utah) (6/27/12)
MPG-27CX	200	Excerpt of Prefiled Surrebuttal Testimony and Exhibit of Michael P. Gorman in Docket No. 11-035-200 (Public Service Commission of Utah) (7/18/12)
MPG-28CX	200	Excerpt of Prefiled Surrebuttal Testimony and Exhibit of Michael P. Gorman in Docket No. 11-035-200 (Public Service Commission of Utah) (7/18/12)
MPG-29CX	200	Excerpt of Prefiled Responsive Testimony of Michael P. Gorman in Consolidated Dockets
MPG-30CX	200	Excerpt of Transcript of Hearing in Consolidated Dockets UE-121697 and UG-121705 (5/16/13)
MPG-31CX	200	Boise White Paper's Response to PacifiCorp's Data Request 2.4
KLE-5CX	215	Excerpt of Prefiled Testimony of Kenneth L. Elgin in Consolidated Dockets UE-111048 and UE-111049 (12/7/11)

KLE-6CX	215	Excerpt of Prefiled Testimony of Kenneth L. Elgin in Consolidated Dockets UE-120436 et al. (09/19/12)
CLE-7X	215	Excerpt of Prefiled Rebuttal Testimony of Kenneth L. Elgin in Consolidated Dockets UE-120436 et al. (11/19/12)
RBD-5CX	287	PacifiCorp's response to WUTC Data Request No. 240 (2 pages)
RBD-6CX	287	PacifiCorp's response to WUTC Data Request No. 240 (2 pages)
RBD-8CX	287	Derivation of the Control Area Generation West Allocation Factor, PacifiCorp versus Staff for the Twelve Months Ended June 30, 2013 (1 page)
GND-14CCX	298	PacifiCorp's Response to Public Counsel Data Request 117 and Confidential Attachment PC-117-1
GND-15CX	298	
MRT-5C CX	335	PacifiCorp's 1st Revised Response to Public Counsel Data Request 14 and Attachment PC 14 1st Revised
MRT-6C CX	335	PacifiCorp's Response to Public Counsel Data Request 70 and Confidential Attachment PC 70-2

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JUDGE MOSS: Let's be on the record.

Good morning, everybody. My name is Dennis Moss. I'm an administrative law judge with the Washington Utilities and Transportation Commission. We are convening this morning in an evidentiary hearing in the matter styled WUTC against PacifiCorp, doing business as Pacific Power and Light Company, Docket UE-130043.

We'll get to our agenda here in a moment, taking appearances and so forth, but before we do that, a couple of housekeeping matters. We have predistributed the hearing version of the exhibit list. You all should have that now.

I think the only significant change, and perhaps it's not all that significant, we have decided, at the bench, to include as an exhibit in the record this Pacific Power General Business update, August 13, 2013. This is a presentation that was made to the commission in a duly noticed open public meeting. I don't know exactly when. But in any event, out of an abundance of caution, for lack of a better word, we decided to put this in the record. So if anyone wishes to respond to it, they may.

(The Bench Exhibit was admitted.)

I wanted to express my appreciation to the company for providing me with this updated, contested -- issues list, I should say. Not all are contested. That was a helpful piece to have in that it sort of verifies our thinking on a few points as to where things stood. Of course, after the rebuttal, we're never sure of where the other parties are when the company has conceded to this or that small matter. So we have that. For that I am appreciative.

MS. McDOWELL: Judge Moss, can I just say that all of the parties worked with us on that.

JUDGE MOSS: My appreciation then to all of you.

MS. McDOWELL: I don't want to take sole credit for it, since all of the parties were very helpful in trying to put that together.

JUDGE MOSS: Thank you very much. I should have anticipated that that would be the case.

So let's go ahead and take appearances and get that procedural matter out of way.

We'll start with the company.

MS. McDOWELL: Short form appearances?

JUDGE MOSS: Yes.

MS. McDOWELL: Katherine McDowell, here on behalf of PacifiCorp.

MS. WALLACE: Sarah Wallace, on behalf of PacifiCorp.

MS. DAVISON: Melinda Davison, on behalf of Boise White Paper, and also with me is Jesse Cowell from Davison Van Cleve.

JUDGE MOSS: All right. You have the space occupied with books, poor Mr. Cowell has to sit behind.

MR. PURDY: Brad Purdy, on behalf of The Energy Project.

MS. GAFKEN: Lisa Gafken, assistant attorney general, on behalf of public counsel.

MR. CEDARBAUM: Robert Cedarbaum, for commission staff.

JUDGE MOSS: Mr. Cedarbaum.

All right. Our order of business today, I will ask you whether there are any motions or requests or preliminary matters to discuss, and then we will begin with our witnesses.

As I understand things, we have a little bit of cross for Mr. Griffith. Does that remain true?

MS. GAFKEN: (Nods head.)

JUDGE MOSS: So Mr. Griffith will be our first witness. If he'd like to go ahead and take a seat up here while I'm talking, that would be fine. And then we'll have Mr. Hadaway, Mr. Williams, and then Mr. Elgin, individually.

And this will be the opportunities for parties who have indicated cross-examination for any of these witnesses to conduct that cross, and I think there is cross, yes, indicated for each of them. Once that cross-examination and any redirect is complete, the four of them will sit as a panel, and the commissioners will engage in colloquy with the panel, and I'll give an opportunity for redirect of individual witnesses by the sponsoring parties at the appropriate moment in time.

Once we finish that, hopefully the timing will be just perfect, and we'll take our morning break. That probably won't happen, but we'll see. And then Mr. Dalley will be the next witness for PacifiCorp after that.

Very well. Let's see. Are there any motions, preliminary matters, requests, gratuitous comments?

Nothing.

Yes?

MS. McDOWELL: So on the prefiled testimony, is it your --

JUDGE MOSS: Ah. Stipulations.

MS. McDOWELL: Well, I don't believe anybody is going to object to anybody else's prefiled testimony. I don't know that. I think the exhibits are another matter.

JUDGE MOSS: I'm absolutely with you there. I take it there may be some objections with respect to the cross-examination exhibits. I'm fully expecting that there will be.

But as to the prefiled testimony and exhibits, is anybody going to have objections to any of that material, not the cross-exhibits, but the other material?

No.

Thank you for reminding me, Ms. McDowell. We will stipulate into the record then the prefiled testimony and exhibits, except for the cross-examination exhibits, as identified on the exhibit list that's distributed this morning, and that has been supplied to the court reporter.

When we get to the cross-exhibits, we'll take up objections as appropriate. All right?

MS. McDOWELL: So, Judge, just so I understand, as the exhibits are offered, that's the time, or as they are --

JUDGE MOSS: Yes.

MS. McDOWELL: If somebody intends to use them, if there's an objection, at that time you would take up whatever objection a party would have?

JUDGE MOSS: That's right. That's when I'll do that.

MS. McDOWELL: Then the appropriate process would be to offer the cross-exhibits at the end of the cross-examination?

JUDGE MOSS: At the conclusion of the cross.

MS. McDOWELL: Thank you so much.

MR. CEDARBAUM: So the stipulation to direct the prefiled materials would be for all parties. Is that correct?

JUDGE MOSS: That's my understanding of what I just did.

MR. CEDARBAUM: Right. That was my understanding.

MS. McDOWELL: Ours too.

MR. CEDARBAUM: Normally we would ask the witness preliminary questions, ask him to identify their exhibits one at a time. We just do not do that drill?

JUDGE MOSS: We can skip that step, which begins to get tedious after about 20 or so witnesses. We won't need to prove up the prefiled material that's been stipulated in. You may need to lay a foundation for a cross exhibit, but that's a different matter.

Well, I got 80 percent. That's not bad.

I'll go get the commissioners. We'll be briefly off the record.

(Pause in proceedings.)

JUDGE MOSS: Let's be on the record.
Mr. Griffith, if you'll please rise and raise your right hand.

WILLIAM R. GRIFFITH

Witness herein, having been first duly sworn on oath, was examined and testified as follow:
THE WITNESS: I do.
JUDGE MOSS: Please be seated.
Mr. Cedarbaum, do you have cross for this witness? We don't need to prove anything up, do we?
MS. McDOWELL: Judge Moss, if you don't mind, this witness might have a correction or two.
JUDGE MOSS: Let's have that.

DIRECT EXAMINATION

MS. McDOWELL:
Q. The parties have stipulated to the prefiled testimony in this case. Do you have any corrections or additions to the prefiled testimony in this case?
A. I have two corrections to my testimony. On page 3 --
Q. Mr. Griffith, can you just wait one second to make sure everybody has the testimony?
JUDGE MOSS: I have the advantage of being here early.
MS. McDOWELL: It takes a minute to move in.

Maybe you all can give me the signal when you're ready.
This is WRG-1T. Correct?
THE WITNESS: Yes, it is.
JUDGE MOSS: Ready? We're ready. Thanks.
BY MS. McDOWELL:
Q. All right, Mr. Griffith, will you proceed.
A. Thank you.
On page 3, line one, the word "authorized" should modify "equity component," not "return on equity." So the sentence would say, "The company's return on equity authorized equity component and return." And then there are no further changes.
My second question is on page 10, line 11. The percentage figure in the far right, it says 10.9, it should say 10.8.
Those are my corrections.
Q. I was about ready to ask you. Do you have any other corrections or additions to your testimony today?
A. No, I do not.
MS. McDOWELL: Thank you.
This witness is available for cross-examination.
JUDGE MOSS: Thank you very much. Let's proceed with you, Mr. Cedarbaum.
CROSS-EXAMINATION
BY MR. CEDARBAUM:

Q. Good morning, Mr. Griffith.
A. Good morning, Mr. Cedarbaum.
Q. As I understand your rebuttal case, the company has reduced the request for revenue increase proposal from 42.8 million to 36.9 million. Is that correct?
A. Yes, that's correct.
Q. Even at that reduced level, the company is still seeking about a 12 percent increase in annual revenues?
A. Yes. I believe it's 12.1.
Q. Well, is it your understanding that the staff proposed revenue requirement increases by about 14.6 million?
A. Yes, I believe that's the case.
Q. So staff and the company are about 22 million apart?
A. Yes.
Q. Would you agree that the difference between the staff and the company revenue requirement proposals relates primarily to cost of capital proposals and power cost recovery?
A. I think those are the two large categories. There are also major capital additions.
Q. The cost of capital and the power cost issues make up the larger part of that difference?
A. Yes, I believe so.

Q. On power costs, the main difference between staff and the company relates to the cost recovery of QF contracts?

A. It relates to the cost recovery of our QF contracts, renewable contracts in Oregon and California.

Q. In your rebuttal at page 10, starting at line 22 and jumps to the top of page 11, you state your opinion that other than the expedited rate filing for staff, staff's collective position in this case does not support creative or progressive rate making ideas, but instead effectively rejects any modifications to the status quo for PacifiCorp. Do you see that?

A. Yes.

Q. And then you provide on the remainder of page 11 a couple of examples of your opinion, the first being staff's use of average or monthly average rate-base balances versus the company's end of period rate-base balances. Is that correct?

A. Yes.

Q. Is it correct that the staff use of average of monthly average rate-base balances increased the company's revenue requirement versus use of end-of-period rate-base balances?

A. Yes. While it's true that it does, we believe that end-of-period rate base, which in this case provides a benefit to customers, more accurately reflects the costs of serving Washington customers going forward through the rate year.

Q. Had staff used end-of-period rate-base balances rather than average of monthly average rate-base balances, would your revenue requirement proposal have been lower?

A. I believe it would have been approximately $300,000 lower. Again, as I stated, the use of end of period provides a benefit to customers in this case.

Q. Another example that you gave on page 11, regarding your criticism of the staff case, is the staff-proposed cutoff date for capital plant additions. Is that correct?

A. Yes.

Q. And here you're referring specifically to Mr. McGuire's proposal to remove the cost of the Jim Bridger turbine upgrade and the Merwin fish collector because of their in-service dates after the company filed its rate case in this docket. Is that right?

A. That's correct. The Jim Bridger upgrade is in service today.

Q. But the in-service date was after the company's filing. Is that right?

A. It was after January 13th, that's correct.

Q. Is it correct that the staff proposal is to shift cost recovery over to facilities from this case to the expedited rate filing proposal that it's made?

A. I'm not aware that was the specific proposal. That would probably be an outcome if the expedited rate filing went forward. It would not be -- those costs would not be reflected in rates that come out of this case.

Q. But if that proposal went forward, they could be reflected in rates that come out of the expedited rate filing case?

A. They would, they could, possibly, but again we'd be setting rates in this case with plant in service that is in service today that would not be reflected in rates in December of 2013.

Q. The Merwin fish collector is not in service today, is it?

A. No. The Merwin fish collector is expected to go into service in around February 2014, probably about two months into the rate effective year for this case.

Q. With respect to the expedited rate filing proposal of staff, is it correct that expedited rate case treatment was one of the recommendations that came out of the Governor's work group that you reference in your testimony?

A. Yes, it is. And we appreciated the staff's proposal for an expedited rate filing here. We felt that it was difficult to understand in terms of where it fits with the statutes, and the cap on an expedited rate filing that would be in place, but we were appreciative of the idea.

We believe that the first step in doing an expedited rate filing would be to set base rates at a level, and we hope out of this case, we're hopeful we can set base rates at a level where we could recover our costs and set our returns to serve Washington customers at this point, and then the expedited rate filing would be a good mechanism perhaps going forward from that.

Q. You indicate in your testimony at page 9 that -- this is on line four -- you state your appreciation of the staff proposal, but you state the specifics are unclear. Do you know if the company asked any data requests or discovery questions of staff to nail down the specifics of the proposal?

A. No, we did not. And I think what you would want to look at would be on page 10 of my testimony, where we look at the example of the staff's recommended increase, which would be approximately a 4.8 percent increase, along with if we had two subsequent expedited rate filings, we would still see an overall increase that is short of the increase necessary in this case alone, and that would occur over approximately a three-year period.

So we, as I've stated, at this point we believe that the first step is to set base rates at a level that's reasonable, and then also through the expedited rate filing to specify more clearly how that would work, given the requirements of WAC 480-070-505.

Q. The rate that you specify in your testimony involves the filing requirements for general rate cases. Is that right?

A. And has to do with the limitations of three percent.

Q. So is it your understanding of the staff proposal that the expedited rate filing would be limited to under three percent?

A. Our understanding, it would be limited 2.99 percent, that's correct.

Q. Have you read Ms. Reynolds' testimony in this case on that subject?

A. Yes.

Q. Then are you aware, or would you accept subject to your check, that at page 12, lines 14 to 17, she states than an ERF in excess of three percent would not need to fulfill all the filing requirements normally required by commission rule for a general rate case?

A. Would you please reference again the page number?

Q. Page 12, lines 14 to 17.

A. I see that. I think again for us it was somewhat unclear how that would work.

As I stated earlier, the other issue was that the staff's proposal for the base rate increase would not be sufficient for the company to recover the costs of serving Washington customers today. And so we had focused on, in this case, on setting the base rates at a compensatory level before we would look at the ERF, but again we do appreciate the proposal, and we think it could be workable in the future.

Q. But your testimony is that the staff proposal would not allow the company to seek an ERF of three percent or greater, per testimony? It says just the opposite, doesn't it?

A. I'm not a lawyer, but as we reviewed this, we felt there would be difficulties in achieving that, and that was our review of the proposal.

Q. The testimony merely says that if the company files an ERF that exceeds three percent, the company wouldn't have to comply with the commission's filing requirement rules regarding a general rate case.

MS. McDOWELL: Objection.

I'm sorry. Are you through with your question?

MR. CEDARBAUM: No.

MS. McDOWELL: Sorry. I didn't mean to interrupt.

BY MR. CEDARBAUM:

Q. My question is wouldn't staff's ERF proposal permit the company to file, make a rate filing, that is three percent or greater?

MS. McDOWELL: Objection. This was the question that was just asked and just answered.

JUDGE MOSS: Let him answer it.

Go ahead.

THE WITNESS: I think what we're talking about is one sentence in a piece of testimony here, and as I mentioned, we appreciate the proposal, we didn't feel that it was fully fleshed out as to allow us to understand how that would work.

BY MR. CEDARBAUM:

Q. Do you understand how it would work on that particular point now?

A. Well, I -- no. It says the entire set of document filing requirements. So which part of those would be excluded, I don't know.

Q. Going back to your general criticism of the staff and the examples you cite regarding average of monthly average rate base and capital plant additions, is it correct, or if you'd like to accept subject to check, that in Mr. McDougal's exhibits he shows that the company is fully allocated and the adjusted total rate base is approximately $824 million?

A. I do not have Mr. McDougal's exhibits in front of me.

Q. Would you accept that subject to your check?

Or can the witness be provided them? It's SRM-7.

A. Okay. We can accept subject to check what, 824 --

Q. Million dollars.

A. -- million dollars.

Q. For total adjusted Washington allocated rate base.

A. I'll accept that subject to check.

Q. Would you also accept subject to your check that the staff fully adjusted Washington allocated total rate base is about 820 million, as shown by Ms. Huang's exhibit?

JUDGE MOSS: Somebody can check that for Mr. Griffith. And before he leaves the stand, if it turns out that Mr. Cedarbaum has misread something in the record, we'll be able to clear it up at the time.

But go ahead with your question, Mr. Cedarbaum.

MR. CEDARBAUM: For the record, Mr. McDougal's number is SRM-7, page 1, line 57, column five, and Ms. Huang's number is JH-2 page 1, line 57, column E.

JUDGE MOSS: Thank you.

BY MR. CEDARBAUM:

Q. Accepting those numbers subject to your check, the difference between staff and company total rate basis for rate making purposes in this case is about $4 million on a rate base of $820 million?

A. Well, that's the difference between those two values. I don't know what components of rate base are included in either of those two numbers however; if those are the same components, those are different components, or how that works. And I'd probably refer that to one of our witnesses to address this.

Q. One of the other differences between the staff and the company is interstate cost allocations. Is that correct?

A. Yes, it is.

Q. This question has to do with nonpower cost allocations. So putting aside Mr. Duvall's issues. Are you aware of the revenue requirement impact of the staff's proposal to use their west control area methodology as is?

A. Well, I really looked at the case as an overall case. Again, as I mentioned, the staff's proposal would increase rates by approximately 4.8 percent.

Q. You're not aware of the revenue requirement impact of just that one difference between the company and staff on interstate cost allocations?

A. I think you'd need to point me to where you're referring to.

Q. Would you accept subject to your check and the company's response to staff data request 264 that that difference is about $800,000?

MS. McDOWELL: Objection. You're referring to a data request that's not in the record? Is that correct?

MR. CEDARBAUM: Yes.

MS. McDOWELL: I would object to that. He could put it in as a cross-exhibit if he was going to ask this witness about a data request.

JUDGE MOSS: Okay. Mr. Griffith, the question to you basically is are you aware of that difference being about $855,000 or not.

THE WITNESS: No, I'm not.

JUDGE MOSS: Okay. That's it.

BY MR. CEDARBAUM:

Q. Finally, Mr. Griffith, is it true that the company through Mr. Stuver has proposed modifications to

the investor-supplied working capital calculation?
    A. Yes, we have.
    Q. And staff is in support of those modifications?
    A. Yes, they are, and we appreciate that.
    Q. Is it correct that those modifications result in an increased rate base?
    A. I believe so, yes.
        MR. CEDARBAUM: Thank you. That's all my questions.
        THE WITNESS: Thank you.
        JUDGE MOSS: Ms. Gafken, go ahead.

CROSS-EXAMINATION

BY MS. GAFKEN:
    Q. Good morning, Mr. Griffith.
    A. Good morning.
    Q. In PacifiCorp's direct case, the company proposed end-of-period rate base as a mechanism to address regulatory lag. Correct?
    A. Yes, we did.
    Q. And PacifiCorp did not propose any other mechanism to address regulatory lag or attrition in its case, did it?
    A. Let me think about that for a moment. I think we've had -- we've an issue of chronic under-earning in Washington, and we've been focusing on those issues in

my testimony and in our case, and I think that the case itself reflects regulatory lag that we're seeing.

Q. But you didn't do an attrition study or propose an attrition adjustment or any other answer to that issue other than the end-of-period rate base?

A. No, I tell you our attrition study is broader than that. We filed a general rate case.

Q. Did PacifiCorp propose a multi-year plan or a expedited rate filing mechanism in this case?

A. No, we did not. We wish we could have, but we are still looking at the core issues here, and once we can get a -- I'm hopeful we can get a resolution of those, we can help deal with these other alternative mechanisms.

Q. Would you please turn to your rebuttal testimony, Exhibit WRG-1T, page 2, lines one through five.

A. Where was that again, please?

Q. Page 2, lines one through five.

A. That's my direct testimony?

Q. It's your rebuttal testimony.

A. Right.

JUDGE MOSS: To avoid confusion, Mr. Griffith only filed one round of testimony in this proceeding, and that was at the rebuttal phase.

MS. GAFKEN: Yes. Exhibit No. WRG-1T.

BY MS. GAFKEN:

Q. Are you there?

A. I see that.

Q. Would you please read the two sentences that appear on those lines, beginning with, "The company is disappointed"?

A. "The company is disappointed in the parties' positions in this case. The parties appear to ignore the commission's recent commitment to actively seek solutions to issues such as earnings attrition and their timely recovery of infrastructure investments, regulatory lag and to approve the efficiency, predictability and consistency of rate making decisions in Washington."

Q. Thank you.

Understanding that there is a controversy with respect to one of public counsel's adjustments, and setting aside that controversy for the sake of this question, isn't it true that public counsel through Mr. Dittmer supported end-of-period rate base for the company and filed detailed testimony supporting this concept?

A. Yes. Mr. Dittmer did, and we appreciate his proposal.

Q. Isn't it also true that Deborah Reynolds on behalf of the commission staffed proposed an expedited rate filing mechanism?

A. Yes, it's true, and we acknowledged that.

Q. Please turn to your Exhibit WRG-1T, page 5, lines 20 through 23. Are you there?

A. Yes, I'm there.

Q. There you state, "It is important to note that without a well-designed power cost adjustment mechanism, or the ability to reset net power cost outside of a general rate case, the company would not have been able to consider these multi-year certainty plans." Is that a correct reading?

A. Yes. These multi-year rate certainty plans. Yes.

Q. Yes. Are you familiar with Mr. Dittmer's rebuttal testimony addressing the staff's proposal for ERF?

A. Somewhat, yes.

Q. Under an ERF, would the company or could the company be permitted to update all plant and/or incorporate the most recent fuel and purchase power prices?

A. I believe so. I think we -- I discussed the ERF with Mr. Cedarbaum, and at this point, as I've mentioned, we were trying to address the base issues in this case. We appreciate the offers of the expedited rate filing, which we know has been used for other utilities; however, we have not addressed that. At this point we're dealing, as I mentioned before, with the more basic issues of the west control area and dealing with other issues at this time.

Q. Turning back to your testimony, Exhibit WRG-1T, going to page 12, lines nine through 11.

A. Yes.

Q. In your testimony, you suggest that if the commission refuses to allow the Merwin fish collector that it should then allow a tracker. Is that a correct representation of your testimony?

A. I wouldn't call it a tracker. It would be a separate tariff rider that would become effective at the time that the facility is in service. We've used this in Oregon, and we believe it's -- and I should have really mentioned it earlier. It is also a way to deal with regulatory lag, and to help to synchronize the timing of plant in service with the rate effective period.

Q. Well, under the ERF proposal that's been made in this case, wouldn't the Merwin fish collector be brought into rates through the ERF mechanism?

A. I'm not -- it would be brought into rates. I don't think it would be brought into rates on a timely manner.

MS. GAFKEN: I have no further questions.

JUDGE MOSS: Thank you, Ms. Gafken.

MS. GAFKEN: I'm sorry. I did have one more question, if it's not too late.

JUDGE MOSS: All right.

BY MS. GAFKEN:

Q. I wanted to go back to your discussion with Mr. Cedarbaum about the three percent issue with the ERF. You indicated that you had some concerns about that proposal, or how it might work. What you elaborate a bit on those concerns?

A. I think our concern was under the, under the ERF, without more clear specification, there would be a limitation on the filing at 2.99 percent, and so until specifics were ironed out on that, we -- we believe that was the case, and we didn't believe, again, with staff's base case set at 4.8 percent, that we would be in a position to recover the costs necessary to serve Washington customers through the rates that would be in effect.

Q. Do you believe that three percent limitation would apply to an ERF mechanism?

A. That was our understanding that it would, without some changes.

Q. Thank you. That's all.

A. We'd be glad to discuss that more at a future date if the parties believe otherwise.

MS. GAFKEN: That's all I have.

JUDGE MOSS: Questions from the bench?

COMMISSIONER GOLTZ: Thank you.

Good morning, Mr. Griffith.

THE WITNESS: Good morning, Mr. Goltz.

COMMISSIONER GOLTZ: You made a correction on your testimony, on page 3. What gave rise to that change? Again, what you did, on line one, as I understand it, you deleted "authorized for return equity," and inserted it before "equity components." Is that true?

THE WITNESS: Yes.

COMMISSIONER GOLTZ: What was the reason for that?

THE WITNESS: We wanted to correct the fact there that -- we have a -- our currently authorized return on equity in Washington is 9.8 percent, it's similar to other states that we serve.

COMMISSIONER GOLTZ: "Similar" meaning identical?

THE WITNESS: Yes, identical. However, if you look at my table, at the bottom of page 3, our actual return on equity in Washington -- what I'm just showing here is Washington, but our actual return on equity in Washington is the lowest, is currently the lowest of the company's jurisdictions.

COMMISSIONER GOLTZ: Was this correction that you made, was that true at the time you filed the testimony or did the necessity for changing this happen after you filed it?

THE WITNESS: It was misstated at the time we filed the testimony.

COMMISSIONER GOLTZ: You talked about the fact that the state of Washington does not generally use a future test year. Correct?

THE WITNESS: Yes.

COMMISSIONER GOLTZ: Did you consider filing this case with a future test year?

THE WITNESS: No, we did not. We didn't believe we would have the ability to file a future test period in Washington, a full forecast test period.

COMMISSIONER GOLTZ: The regulations do require a -- they require, a test year, which is a past period. But there's no prohibition, is there, against filing it both ways, see how it would work with the future test year with the existing practice?

THE WITNESS: That might be the case, but I -- we understand that the, the historic test period is required, and that's what we base the case on. We would like to use forecast test periods in the future.

COMMISSIONER GOLTZ: What costs do you envision the company incurring in the rate effective period that were not included in your rate filing?

THE WITNESS: Well, I know for major capital additions we have five major capital additions in this case.

COMMISSIONER GOLTZ: Those are in your rate filing?

THE WITNESS: Yes, they are.

COMMISSIONER GOLTZ: I'm talking about costs that would be captured in a future test year, that were not included in your rate filing, but would be included if you had your way and had a future test year.

THE WITNESS: You would have smaller projects cost that could flow forward into the forecast test period that would not be in this case. We only have the five largest over $10 million. Changes in load.

COMMISSIONER GOLTZ: But changes in load are forecasted now. Right?

THE WITNESS: Not for setting the billing determinants for customers.

COMMISSIONER GOLTZ: So it would be some smaller capital projects is what you're saying would be included that aren't included under your existing filing?

THE WITNESS: And there would also be just changes, general escalators that are used for other cost components, that O & M and so forth that are not in this case and that are used in other forecast test periods.

COMMISSIONER GOLTZ: Right now we allow for pro forma adjustments for costs that are known and measurable. Correct?

THE WITNESS: Yes.

COMMISSIONER GOLTZ: You're saying there's some costs other than those that would be included?

THE WITNESS: Yes, I believe there would.

COMMISSIONER GOLTZ: Those would be costs that aren't measurable, but estimated? Is that the basic difference?

THE WITNESS: Yes. I mean, forecast test periods do use escalators and other factors from third parties to project costs into the future, and those would also be applied in a forecast test period.

COMMISSIONER GOLTZ: And that's also the way it's done with a multi-year rate year frequently, too, isn't it? That's how multi-year rate plans are frequently established?

THE WITNESS: Multi-year, the state -- well, four of the states that we serve have forecast test periods. We have multi-year rate plans in those states, and they use forecast test periods. Other states, Idaho does not, and we have used a multi-year rate plan there without a full forecast test period.

COMMISSIONER GOLTZ: Your last case before this commission was settled. Is that correct?

THE WITNESS: Yes. The 2011 case, which was originally filed as a make-whole filing, with limited issues, was settled.

COMMISSIONER GOLTZ: At the settlement hearing on that, as embodied in the order, the company agreed that the rates set by that proceeding in that settlement were fair, adjust, reasonable and sufficient. Isn't that correct?

THE WITNESS: Yes, sir. We indicated that under this settlement we believe that rates were fair, just, reasonable and sufficient. For the company, part of the value of that case, and our determination that it was reasonable, was the fact that we could engage in a collaborative process over the period of -- prior to the next rate case while we exercised the stay-out period, so that we could review a number of proposals and ideas to improve the allocation methods. And that brought value to the company, which under that agreement, and under our determination that rates were fair, just, and reasonable, was acceptable to the company to move forward with that process also.

COMMISSIONER GOLTZ: So you're saying the rates were or were not fair, just, reasonable and sufficient?

THE WITNESS: And I don't have the full quote of the transcript there, but what we also said was under the stipulation, and we viewed the stipulation as part of the agreement for determining, at that time, yes, rates were fair, just and reasonable, and we accepted that --

COMMISSIONER GOLTZ: And sufficient?

THE WITNESS: And sufficient. Moving forward with that process, to build some benefits in the future.

COMMISSIONER GOLTZ: And that settlement was not based on future test year. Correct?

THE WITNESS: That's correct.

COMMISSIONER GOLTZ: You mentioned in your response to Mr. Cedarbaum, and I wrote it down, and I want to make sure I got it right, because these questions were about the expedited rate filing, or the ERF proposal, and I believe you said that it was difficult to see how an expedited rate filing fits in with statutes. Did you mean statutes, or do you mean regulations?

THE WITNESS: I might have used that incorrectly.

COMMISSIONER GOLTZ: Is there a statutory limitation --

THE WITNESS: No, I believe it's in the regulation.

COMMISSIONER GOLTZ: You're referring to the three percent limitation?

THE WITNESS: Yes.

COMMISSIONER GOLTZ: So let me ask you about that. On page 10, line seven of your testimony, you said that if the ERF allows raise increases of only 2.99 percent or less, then the mechanism would be of limited value unless a common rate baseline is established in this case.

So, I mean, are you saying that if at the end of this rate case your rates are fair, just, reasonable and sufficient, would you or would you not want an ERF proceeding, even if -- assuming that your concern is correct, it's limited to three percent?

THE WITNESS: I think we'd have to weigh that at the time, but if the rates that came out of this rate case were fair, just, and reasonable -- just, reasonable and sufficient for the company to recover the costs of serving Washington customers through rates, then an ERF could be a mechanism to use going forward. It would really depend on what the circumstances are at the time, and the 2.99 percent might be doable under that. It's hard to predict.

COMMISSIONER GOLTZ: Three percent rate increase is not insignificant.

THE WITNESS: No, it's not.

COMMISSIONER GOLTZ: It sounds like to me you're saying it's not significant to the company, it's of limited value. But you can't really be saying that, can you?

THE WITNESS: No, I'm not saying that it's -- I'm not saying that. What -- maybe I'm not doing the best job of explaining this that I could. And that is we viewed the whole package on page 10 of my testimony as not sufficient going forward, and that the ERFs, with the staff's revenue requirement proposal, would not recover our costs of serving Washington customers.

COMMISSIONER GOLTZ: We've had an ERF now, another utility in the state of Washington, and it seems to be well accepted, and you seem very tepid.

THE WITNESS: Well, I'm -- I guess what I've been trying to say is that, first of all, three percent increases are not insignificant. Secondly, we do think it would be -- we focus in this case on the base rates, and once we work our way through those, we're hopeful that an ERF could be a mechanism going forward. Once we set the base level of revenues at a reasonable level, then going forward an ERF could be a possibility.

COMMISSIONER GOLTZ: But I know that in other states in which you do business, or the broader company does business in the western states, there's a number of states that have had multi-year rate plans.

THE WITNESS: Yes, we are very happy with those.

COMMISSIONER GOLTZ: And we approved a multi-year rate plan with another utility in the state of Washington that we regulate, and so obviously we've been receptive to that. But we didn't see -- and you knew that coming into this case. Why didn't we see a proposal for that?

THE WITNESS: Well, our initial filing, of course, is not an insignificant filing in any way, and the rebuttal case still is a significant rate increase, and so we're dealing with that first step. And the first step in dealing with issues such as west side QFs, dealing with costs of capital, and these important issues first, seemed to us to get kind of the foundations laid before we look at these alternative mechanisms.

COMMISSIONER GOLTZ: Okay. I have no further questions.

COMMISSIONER JONES: Good morning, Mr. Griffith.

THE WITNESS: Good morning, Commissioner.

COMMISSIONER JONES: I'm going to focus on pages 5 and 7 of your testimony on the collaborative process. Just a few questions on that.

So you described the process of this collaborative group involving ten meetings with company staff, public counsel, and ICNU. Correct?

THE WITNESS: Yes, that's correct.

COMMISSIONER JONES: Now, just as a foundational question, were you in charge of heading up that process, or was Carla Bird? Who in the company was kind of the lead on that process.

THE WITNESS: Carla Bird was the Washington state regulatory manager. A number of us within the regulation group were all involved in that process and I'm certainly willing to say I was as in charge as anyone else.

COMMISSIONER JONES: Okay, good. Because Carla Bird is no longer with the company. Correct?

THE WITNESS: That's correct.

COMMISSIONER JONES: What was the goal, one or two goals of the collaborative process? What did the company want to see coming out of that? Would it be a broad consensus on the interjurisdictional cost allocation methodology? Was that the primary objective?

THE WITNESS: Certainly one of our objectives was to get a -- some improvements to the allocation methodology that the program was in a five-year pilot program. We were now looking at ways to make improvements and deal with shortcomings that were in the base program, and so our hope was to improve that process. Also to look at alternative rate making mechanisms. Those were discussed during the process.

We brought in a number of our mechanisms from other states that we have that are in effect for the company that were I think usable. We were looking really at trying to, within the west control area, improve that allocation methodology.

COMMISSIONER JONES: And I've had a chance to read some of the minutes of those meetings, and I'm not going to ask too many questions. I think it's a cross-exhibit later for Kendra White. But did you also not look at the Aurora power cost modeling, power cost model as opposed to GRID?

THE WITNESS: Yes, we did look at the Aurora power cost model as opposed to GRID. I think the general consensus of the parties participating in the meetings was that, for PacifiCorp, that Aurora was not going to be an improvement.

COMMISSIONER JONES: Was not?

THE WITNESS: Was not, yes.

COMMISSIONER JONES: So at a high level, you say on page 6, basically, did the parties agree to any significant changes to the regulatory process, and your answer is no. So could you summarize why you think -- this is the company's view -- what are the top two or three reasons why this process did not work.

THE WITNESS: Well, as we reviewed a number of mechanisms, I think that the parties, which would bring current costs into rates more frequently or more timely, parties were not willing to accept those types of mechanisms.

We reviewed a number of our California mechanisms, and those were not -- parties were not -- did not find those acceptable, and I think that was kind of the -- I'm trying to think what else at this point.

COMMISSIONER JONES: Was it an issue of resources? Was it either our staff's resources or your staff's resources or public counsel or ICNU, in your view? But there were insufficient resources to devote to this process to develop consensus?

THE WITNESS: I don't recall it being specifically mentioned. That might have been true. There was also a timeline that we were looking at achieving this through, and so that limited time also results in some of that, but we felt we had, again as we mentioned, we had 10 meetings with the parties, we brought forth a number of mechanisms, and the parties were not receptive to those.

COMMISSIONER JONES: Going forward, if there's a process going forward, would you suggest that the process be expanded to maybe including a commissioner or maybe policy staff on our side of the ex-parte wall with the rate case? Because I don't think we, on our side, were actively involved in this process.

THE WITNESS: Commissioner Jones, that's correct. You were not actively involved.

We are hopeful that the staff will step -- not only will but already is participating in the multi-state process for the six-state interjurisdictional allocation methodology. We are hopeful that staff will be involved in that. If we had another west control area process, it might be helpful to expand that.

COMMISSIONER JONES: Just refresh my memory. I've been a commissioner for eight years, I get confused between all these processes. There has been a number. Just briefly describe the MSP, the multi-state process, if you would.

THE WITNESS: The multistate process is the process that involves stakeholders from all states, including commission staff, intervenor parties and deals with the allocation of the company's costs across the five- or six-state system.

COMMISSIONER JONES: Our staff has committed, I think it's in the testimony somewhere, to participating in that process, as you just said.

THE WITNESS: Yes. We looked at that in the west control area, the collaborative process last year. We welcome staff's attendance and staff is now attending the multi-state protocol meetings.

COMMISSIONER JONES: Those are all my questions.

CHAIRMAN DANNER: No questions.

JUDGE MOSS: Did the commissioner's questions prompt anything from the parties?

COMMISSIONER GOLTZ: May I ask one more question?

On the collaborative process, Mr. Jones' raised one more with me. There was provision in the settlement that was approved that if the -- that the company could request the participation of administrative law judge to help facilitate that settlement, or that discussion. Correct?

THE WITNESS: Yes. I believe that's correct.

COMMISSIONER GOLTZ: And that person would have been in a sense on our side -- our side of the building, our side of the wall. Correct?

THE WITNESS: I believe that's the case, yes.

COMMISSIONER GOLTZ: The company did not request that?

THE WITNESS: I don't think any party in the collaborative process requested that.

COMMISSIONER GOLTZ: That's right. Including the company.

THE WITNESS: Including the company and the other parties, yes, sir.

COMMISSIONER GOLTZ: Thank you.

JUDGE MOSS: Anything, Mr. Cedarbaum, Ms. Gafken?

Redirect?

MS. McDOWELL: Thank you, Judge Moss.

REDIRECT EXAMINATION

BY MS. McDOWELL:

Q. Starting with that last question first. Mr. Griffith, do you recall the company requesting the commission's participation at the outset of the

collaborative process?
A. Yes, I do. And I believe that at that point it was not felt that it was appropriate to have the commission participate.
Q. So now turning back to the questions that you were asked about the expedited rate filing and the testimony of Ms. Reynolds and your testimony, can you turn to page 10 of your testimony, which you were asked about, and specifically the citation to WAC 480-07-505. Do you see that?
A. Yes.
Q. And that provision, your testimony is that that provision, as you understand it, limits rate increases to three percent, unless there's a general rate case filing? Do you see that?
A. That was my testimony, yes.
Q. So then Ms. Reynolds' testimony that you were asked about on page 12, I believe, and there at line 16 when she refers to the WAC, she's actually referring to 480-07-510. Do you see that?
A. I do.
Q. And that's a different provision, isn't it, than the one you cited?
A. Yes, it is.
Q. And is the provision that Ms. Reynolds cites

related to the filing requirements for a case as opposed to the requirement of the three percent?

A. Yes, it is. And as I indicated, it wasn't clear how -- what filing requirements from Ms. Reynolds' requirements would be included or excluded.

Q. But Ms. Reynolds, just to be clear, doesn't talk about waiving the requirements of WAC 480-075-505 relating to the three percent thresholds. Correct?

A. That's correct.

Q. Are you familiar with the Puget expedited rate filings proceeding and the final order?

A. Yes.

Q. That final order was issued approving the expedited rate filing, it was issued after the company filed this case. Correct?

A. Yes, that's correct.

Q. Now, are you aware in that case that public counsel and other parties objected to the expedited rate filing on the basis that it might exceed that three percent cap?

A. Yes, I understand that was the case.

Q. Public counsel asked you a few questions about the company's attrition and the proposals in this case that the company has made to address that. Do you recall those questions?

A. Yes.

Q. Is the company's proposal in this case for adoption of its actual capital structure a proposal designed to address specific attrition in Washington?

A. Yes.

Q. Similarly, is the company's proposal for pro forma adjustments for new investments a proposal designed to address the company's attrition in Washington?

A. Yes, it is.

Q. Are the company's proposed changes to the west control area allocation methodology in this case proposals designed to address attrition in Washington?

A. Yes. And I think, as I said, that the company's filing overall is intended to address that.

Q. I take it your answer would be the same for the company's request for a PCAM and for changes to the investor-supplied working capital methodology?

A. Yes.

MS. McDOWELL: That's all I have. Thank you.

JUDGE MOSS: Thank you.

Mr. Cedarbaum?

MR. CEDARBAUM: Yes, thank you, Your Honor. I just have a few questions for Mr. Griffith.

RECROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Mr. Griffith, I want to ask you about the interplay between the two rules that you were just questioned about, 480-07-505 and 510. If you don't know the answer to my question, just say so.

But is it correct that 480-07-505 is the commission's rule that defines what constitutes a general rate case versus what does not constitute a general rate case?

A. Yes. 505 is what constitutes a general rate case.

Q. And a general rate case is a tariff filing that would produce additional annual revenues of three percent or greater?

A. Yes.

Q. And it would not be a general rate case if the tariff filed was under three percent. Is that right?

A. I believe that's the case.

Q. If we switch to 480-07-510, that's the rule that just sets out filing requirements for a tariff filing that meets the definition of a general rate case. Is that correct?

A. Yes.

Q. So if I understand your testimony, the issue is not whether you understand staff's ERF proposal to allow an increase above three percent, the issue in your mind is what filing requirements would be required or not?

A. If I can answer that in a different way. I think what Ms. Reynolds said is that if an ERF exceeded three percent, we would have limited filing requirements, and we didn't understand what that meant.

Q. But you don't understand the staff proposal to prohibit an ERF of three percent or greater, do you?

A. Pardon me?

Q. You don't interpret the staff proposal to prohibit a rate filing that produces three percent or more annual revenues?

A. No. We didn't understand it to prohibit, but we didn't understand how it could work under 505.

Q. You were also asked questions about public counsel's position with respect to an ERF and the last Puget case. I believe you responded your understanding was that public counsel opposed an ERF that would exceed three percent. Is that correct?

A. I believe that's what I said, yes.

Q. Do you know if the basis of public counsel's position was that a three percent or greater ERF was prohibited by commission regulation or it was just a bad idea from a policy perspective?

A. I don't know.

Q. Finally, you were asked questions about the PCAM. Is it your understanding that staff's proposal, staff's position is that the company should not have a PCAM of any kind?

A. Staff was not supportive of the company's PCAM proposal, and I don't believe brought forth much in the way of a proposal there. Mr. Duvall is here to address the company's PCAM proposal, and I would defer those questions to him.

Q. I don't want to ask a specific question about it, but the staff's opposition as to the proposal of the company's, which does not include any sharing bands or debt band. Is that correct?

MS. McDOWELL: Can I just object on the basis of this is beyond the scope of my redirect?

JUDGE MOSS: I think he can answer that question.

THE WITNESS: Could you ask the question again, please?

BY MR. CEDARBAUM:

Q. Is it your understanding of the staff's testimony on the power cost adjustment mechanism that staff is opposed to a PCAM of any kind for this company, or that staff is opposed to the proposal the company has

made in this case?
A. I think again as I indicated, Mr. Duvall is the expert on this, but I believe staff, you know, oppose the company's PCAM filings in this case.
MR. CEDARBAUM: Thank you. Those are all my questions.
JUDGE MOSS: Thank you.
Anything?
MS. McDOWELL: No.
JUDGE MOSS: Sometimes best to leave well enough alone.
Mr. Griffith, thank you very much. You may step down subject to recall if needed.
THE WITNESS: Thank you.
JUDGE MOSS: Well, take a break? All right. Let's make it a short break. Let's just take a five-minute break, in case anyone needs to stretch their legs.
(A break was taken from 10:35 a.m. to 10:42 a.m.)
JUDGE MOSS: Let's be on the record.
Mr. Hadaway, if you'll please rise and raise your right hand.

SAMUEL C. HADAWAY

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Thank you. Please be seated.

Anything preliminary?

MS. McDOWELL: No, Your Honor. Dr. Hadaway has no changes or corrections to his testimony, so he's available for cross-examination.

JUDGE MOSS: All right. Very good. Let's see. Find my little cheat sheet here. We have Mr. Cedarbaum.

MR. CEDARBAUM: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR CEDARBAUM:

Q. Good morning, Dr. Hadaway.

A. Good morning, Mr. Cedarbaum.

Q. I hope this won't get too cumbersome, but I'm going to ask you to look at your Exhibit SCH-15 and then compare that to SCH-7; 15 was in your rebuttal testimony, and 7 was in your direct testimony. You may want to have those kind of handy.

A. So this is my original discounted cash flow analysis and my updated analysis?

Q. Correct.

A. Yes, I have those.

Q. So let's go to SCH-15 first, which is your exhibit with the rebuttal case. And this shows the updated results of your DCF analyses from the time you filed your direct testimony. Is that right?

A. Yes.

Q. And in the first column it shows a constant growth DCF result of nine percent. Do you see that?

A. Yes.

Q. And then the second column, a constant growth DCF model result with long-term GDP growth of 9.6 percent. Is that correct?

A. Yes.

Q. And then the third one is your low near-term growth, two-stage growth DCF model, which produced an average 9.4 percent and a median 9.5 percent. Is that correct?

A. Yes.

Q. Now, switching to your direct case, the comparable columns, in your direct testimony, for the constant growth DCF model, the first column, is an average of 9.5 percent, constant growth DCF model with long-term GDP growth, an average of ten percent, and then the final column, low near-term growth, two-stage growth DCF model, an average of 9.8 percent. Is that right?

A. Yes.

Q. So comparing the two pages, for each of the three columns shown on the page, your DCF results decline from your direct case to rebuttal case?

A. Yes, Mr. Cedarbaum. In my rebuttal, the whole point is that that's not a reliable outcome, given that interest rates have actually increased about a hundred basis points during the period.

Q. Well, with respect to interest rates, if we could go to your rebuttal testimony, on page 4, SCH-10T -- actually, on page 5, the table on page 5. Is it correct that this table is a time series where the 30-year treasury rate would represent the interest rates that you're referring to?

A. Well, both the single A utility interest rate in the first column numbers, and then the 30-year treasury rate in the middle column of numbers.

Q. Focusing on the middle column, this is a time series from July of 2010 through June of 2013. Correct?

A. Yes.

Q. There's been discussion this morning about the company's last general rate case was a settled case, and the case before that. Are you familiar with that case at all?

A. I'm not exactly sure of the order dates in those cases. I think I have them in some of my notes, but I've heard the more recent case referred to as the 2011 case, that settled, and the one prior to that is the 2010 case.

Q. I'll ask you the docket number, and if you're not aware of it, just say so. The 2010 case was docket UE-100749. Does that sound right?

A. I don't know the docket numbers, but if that's the litigated one? Is that the one you're talking about?

Q. Yes.

A. Yes, okay. I agree.

Q. Do you know when the commission's order was issued in that docket?

A. No. I don't know exactly.

Q. Would you accept subject to your check that it was issued in March of 2011?

A. Yes.

Q. So in that time frame, looking at your table one on page 5, the 30-year treasury rate was 4.51 percent?

A. In March of 2011, yes.

Q. And so looking down the page to June 2013, interest rates have declined from that point, in March of 2011 to June 2013 of 3.4 percent. Is that right?

A. Well, at that point they had, but data request responses have updated that further, and they continue to go up even more. The projected rate for the 30-year treasury is now over four percent. It's 4.2 percent I think this last week.

Q. That would still be less than the March 2011 figure that you show in your table.

A. It's almost the same, actually. It's a little bit less, yes.

Q. Now, on your Exhibit 15, looking back to that again, on page 1, is it correct that the 9.6 percent DCF result you show in the middle column relies upon a 5.7 percent historical growth calculation of GDP?

A. I believe we have revised that to 5.6. It was an update. It was 5.7 last year, and in our update through 2012 it's 5.63 now.

Q. So that's what's embedded in that column of that exhibit?

A. Yes.

Q. If you could turn to what's been marked for identification as Exhibit SCH-18CX.

A. Give me just a moment, please.

Q. Just tell me when you've got it.

A. I believe I have it. It's WUTC data request 79? Is that correct?

Q. Correct. I was going to ask you if you recognize this as the response to staff data request 79.

A. Yes.

Q. And you were asked in the request itself to provide any analysis undertaken by the witness to evaluate any other readily available data supporting estimates of future long-term growth in GDP. Is that right?

A. Yes, that's right.

Q. In the first paragraph of your response, the last sentence, you refer to a forecast of 4.5 percent. Do you see that?

A. Yes.

Q. And then on page 3 of the exhibit, I'm looking now at the last column under annual growth, the first line says: Real gross domestic product of 2.5 percent. Do you see that?

A. Yes.

Q. And then farther down the column, under the heading price indices, the first line, GDP chain-type price index shows 1.9 percent. Is that correct?

A. Yes, that's right.

Q. Would the addition of those two numbers -- well, first, the addition of those two numbers is 4.4 percent. Is that right?

A. If you -- I don't know about the rounding that might occur, but if you just literally added those two numbers together, yes, that's right.

Q. Now, just turn to your Exhibit 14.

A. Okay. I have that.

Q. The second page. You provide data from the congressional budget office. Is that correct?

A. Yes.

Q. And this shows at the top of the page the second line of numbers down in the last column, nominal gross domestic product for the 2019 to 2023 period of 4.3 percent. Is that right?

A. Yes.

Q. Finally, Dr. Hadaway, in your testimony at page 9, if you'd like to refer to it, that's fine, but it may not be necessary. You criticize Mr. Elgin for not showing, providing statistical evidence of the reliability of his eight-company proxy group. Is that right?

A. This is in 10-T?

Q. It's your rebuttal testimony, so that would be --

JUDGE MOSS: That's 10-T is correct.

BY MR. CEDARBAUM:

Q. 10-T on page 9, line seven. Actually, it starts at line six.

A. Yes, I see that.

Q. Now, you presented cost of capital testimony in that 2010 case that we discussed earlier. Correct?

A. Yes.

Q. And in that case, your group of proxy companies included 22 companies. Is that right?

A. That sounds about right. I haven't looked back at it, obviously.

Q. Well, subject to check, and you can check it, and if I'm wrong, your counsel will let me know.

A. I think that's probably right.

Q. In this case, you've reduced or you've used a proxy group company number of 14 companies. Is that right?

A. Yes.

Q. And you haven't provided any evidence in your rebuttal testimony or your direct of the statistical reliability of that number of companies?

A. Other than it being approximately twice as big as Mr. Elgin's, I have not.

MR. CEDARBAUM: Thank you, Dr. Hadaway. That's all my questions.

JUDGE MOSS: I believe public counsel has indicated some brief cross for Dr. Hadaway.

MS. GAFKEN: No, we haven't, actually. We don't have any cross. Thank you.

JUDGE MOSS: Well, it's on my list.

MR. CEDARBAUM: Your Honor, I'm not sure if I offered Cross Exhibit 18.

JUDGE MOSS: Boise White Paper. My apologies. I was in the wrong column Commissioner Danner has pointed out to me.

Mr. Purdy, do you have any questions?

MR. PURDY: No.

JUDGE MOSS: It must be my glasses. I can't see with these glasses.

MR. CEDARBAUM: Your Honor, I offered Cross Exhibit 18 to Dr. Hadaway.

JUDGE MOSS: Why don't you do it. We'll consider it offered.

Any objection?

Hearing none, it will be admitted.

(Exhibit SCH-18CX was admitted.)

JUDGE MOSS: And then you won't be offering your exhibit either, Mr. Purdy? 17-CX?

MR. PURDY: I'm sorry?

JUDGE MOSS: I have an exhibit here for Dr. Hadaway that's been premarked for Boise White Paper -- you're not Boise White Paper. You're The

Energy Project.

I am getting confused this morning. All right. We won't have to take another break, but I'll take a deep breath.

Ms. Davison? I apologize. Do you have something for this witness?

MS. DAVISON: No, Your Honor.

JUDGE MOSS: Do you wish to offer your exhibit absent questions?

MS. DAVISON: No, Your Honor.

JUDGE MOSS: Thank you very much. That's why you didn't correct me. I know. I can usually count on you to correct me when I'm making mistakes like this. Very well.

Any questions from the bench?

COMMISSIONER GOLTZ: Why don't we wait for the panel.

JUDGE MOSS: We can wait for the panel. Nothing at this point? All right. That makes sense. We can do that. Okay. Fine. We'll just hold that.

All right, very well. If there's any redirect?

MS. McDOWELL: Yes, Your Honor.

REDIRECT EXAMINATION

BY MS. McDOWELL:

Q. Dr. Hadaway, you mentioned in response to a question from Mr. Cedarbaum with respect to treasury rates and the rates reflected on table one that those rates had been updated. Can you explain what you're referring to there?

A. Yes. Mr. Elgin asked us a question, staff question 276, to update the data through July, which we did. And that number went on up to 4.68 percent from the June number. And it went on up beyond that.

Let me look at the data response so that I have the exact right number. I have it here.

Q. Dr. Hadaway, just to help you out there, to make it clear to everybody else, I think we have marked that as a cross exhibit for Mr. Gorman. It's MPG-31-CX.

A. Yes, I have a copy of that.

Q. So go on. I'm sorry.

A. Well, in that, we were just showing the trend since April of 2013 of interest rates have moved up about 120 basis points to where they are now. As of last week, single A rate was 4.87 percent on Thursday, and it was 4.8 percent approximately on Friday.

So the whole thrust of my rebuttal testimony is that interest rates have moved up sharply. The DCF model cannot and does not reflect that in these updated numbers that Mr. Cedarbaum was asking me about.

Quite frankly, it doesn't matter what growth rate you use now, that model now or any of the technical factors about those models. I think a risk premium analysis that supports at least ten percent or higher, actually, ROE, and that then is much more appropriate, and if we have -- the Sep-Taper event from the Federal Open Market Committee expected, actually began reducing its purchases, and if the market comments that we've seen over the last several weeks continue, interest rates are going to continue to move up.

MS. McDOWELL: That's all I have. Thank you.

JUDGE MOSS: Thank you.

MR. CEDARBAUM: Your Honor, I'm sorry. Just one follow-up question.

JUDGE MOSS: All right.

RECROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Dr. Hadaway, the table on page 5 of your testimony, that you were questioned about --

JUDGE MOSS: Is this the rebuttal?

MR. CEDARBAUM: Yes, I'm sorry. SCH-10.

BY MR. CEDARBAUM:

Q. You indicated that you provided a response to staff data request that included the July 2013 numbers, and I believe you gave numbers for the first column for single A utility. What was the updated number, the July number for 30-year treasuries?

A. 3.61 percent.

MR. CEDARBAUM: Thank you.

JUDGE MOSS: All right. Well, Dr. Hadaway, I think you probably have been advised of the game plan. You'll be back as part of a panel here shortly, but for the moment at least, we'll excuse you from the stand.

THE WITNESS: Thank you.

JUDGE MOSS: We have Mr. Williams indicated next on our list.

BRUCE N. WILLIAMS

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Thank you. Please be seated.

Anything preliminary?

MS. McDOWELL: Let me just inquire.

DIRECT EXAMINATION

BY MS. McDOWELL:

Q. Mr. Williams, do you have any changes or corrections to your testimony?

A. No, I do not.

MS. McDOWELL: So this witness is available for cross-examination.

JUDGE MOSS: Again, Mr. Cedarbaum, it appears you have some cross.

MR. CEDARBAUM: I do, Your Honor. I'm just trying to get my bearings.

JUDGE MOSS: After you will be Ms. Davison for Boise White Paper.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Good morning.

A. Good morning.

Q. If you could turn to your rebuttal testimony, which is BNW-13.

JUDGE MOSS: I have it as 14T.

BY MR. CEDARBAUM:

Q. 14T. At the bottom on lines 22 to 23, you state that the company's overall cost of capital proposal is similar to other utilities in Washington, and on line 21 you assert that your capital structure recommendation balances safety and economy.

A. I'm sorry. Could you give me a page reference, too?

Q. I nor I did. Page 1.

A. Okay.

Q. So I'm looking at lines 21 through 23, where you state that the company's cost of capital proposal is similar to other Washington utilities, and then you assert that your capital structure recommendation balances safety and economy.

A. Yes.

Q. So the safety and economy reference is to the commission's general policy on capital structure rate making policies?

A. Yes. It's my understanding the commission looks for a capital structure that balances economy, cost to customers, with safety, access to capital, on reasonable terms and conditions, and we believe our capital structure does provide that.

Q. Are the other utilities that you're referencing on this page of your testimony Puget Sound Energy and Avista?

A. Yes, they are.

Q. What is your understanding with respect to whether Puget and Avista include short-term debt in their capital structure for rate making purposes?

A. My understanding is the commission has ordered capital structures that do include short-term debt for those two utilities here in Washington.

Q. What is your understanding of those two utilities' secured debt ratings?

A. I believe their secured debt ratings are A-minus, A3, from Standard & Poor's and Moody's

respectively.
     Q. So that would put them one notch below PacifiCorp's?
     A. On the secured ratings, yes.
     Q. Are you aware of whether or not Avista and/or Puget have had difficulties obtaining capital on reasonable terms and conditions?
     A. Over what time period?
     Q. Do you have your response to staff data request 287?
     A. Yes, I do. If you give me a minute, I'll turn to it.
     Q. I guess my question would be -- over the last five years would be the time period I'm referencing.
     A. Yes, I really can't comment on the terms and conditions of their financing. I'm much more familiar with PacifiCorp's financing. That's what I spend my time doing.
     Q. So you're not aware one way or the other if it had difficulty in the capital markets?
     A. I know that at least Avista was not investment grade for a number of years, and it took them six or seven years to get back to investment grade. So I think they've had some difficulties in the prior time period.
          MR. CEDARBAUM: Your Honor, I was going to ask

the witness questions about Exhibit 17-CX, and quite honestly in discussions with counsel I'm not sure if the commission's policy is to include excerpts of orders that it's issued or take official notice of them.

I can ask my questions without the exhibit, or we can have the exhibit there for the commission's convenience.

JUDGE MOSS: Just for the sake of clarity, it's not necessary to make orders or excerpts of orders part of the evidentiary record in the fashion of exhibits; however, as you point out, it's present for convenient reference, so in that sense, why don't you go ahead and refer to it here, and we have it before us.

BY MR. CEDARBAUM:

Q. Mr. Williams, looking at Exhibit BNW-17CX, do you recognize this document as the capital structure portion of the commission's order from docket UE-050684?

A. I'm sorry. Can you tell me what the document is titled? Help me?

Q. The first page is the title page of a commission order 04 in docket UE-050684. It was marked for identification as a cross exhibit for you, BNW-17CX.

A. Okay. I have it.

Q. My question is whether or not you recognize this document as the commission's order in that 2005 docket, specifically with respect to the capital structure issue.

A. Yes, I do recognize it.

Q. Is it correct that during the time this case was pending before the commission, the company was owned by Scottish Power and was sold to Midamerican Energy Holdings Company?

A. Let me check the date of the order again, but I believe that's correct.

Q. The date of the order at the top, at least the service date, is April 17th, 2006.

A. Yes. I agree.

Q. Is it correct in the 2005 case, capital structure was a contested issue between staff and the company?

A. It was a contested issue, yes.

Q. Is it correct that the company argued for an actual capital structure with 49 and a half percent equity, taking into account an equity infusion in Scottish Power that would occur between June 2005 and March 2006?

A. I believe that's correct, yes. And those capital infusions were made, and that was the company's actual capital structure.

Q. Do you know what the company's actual capital equity ratio was before that equity infusion from Scottish Power?

A. You'd have to give me a date and time. And the capital structure changes all the time. We typically report on it quarterly. So if you have a reference point, that would be helpful.

Q. Why don't we move onto Cross Exhibit BNW-18CX. Do you recognize the first six pages of this exhibit as your response to staff data request 288?

A. Yes, I do.

Q. And in the request, we ask the company for a table showing year-end capital structure for PacifiCorp since 2005, as shown on the company's 10-K SEC forms. And then page 2 of the exhibit is the company's response to that request in dollar amounts. Is that right?

A. That is right.

Q. And then pages 3 through 6 are the 10-K backup pages?

A. Right. That was also requested as part of the data requests, so we provided those.

Q. Now, looking at page 7, this is a page of the exhibit that you did not prepare. Is that right?

A. Yes. This is not part of our response to the data request.

Q. But if we look at the top half of the page, the first lines one through six, that basically takes page 2, the numbers that you did provide, and duplicates them. Is that right?

MS. McDOWELL: Your Honor, I'm going to object to this questioning and object also to page 7 of this exhibit. We don't think it's proper to offer a company data request, add an additional page that's created on the data request, title it as if it were part of the data request, and add additional information into it.

It seems to us it's an extension of testimony, new evidence that's being offered that we don't have a chance to respond to. We don't think it's a proper cross exhibit.

JUDGE MOSS: First of all, let's be clear. Mr. Cedarbaum was very clear with the witness that this was not part of his data request response. So there's no suggestion of chicanery in your objection I suspect.

As far as the use of such an exhibit as this, it was not unusual to have illustrative exhibits in the hearing room that take data that's portrayed in one fashion and presented in a different fashion. If the witness can answer questions about this, I will allow it. If he can't, or won't, without a calculator in hand, then that is his prerogative.

Mr. Cedarbaum, I will let you proceed.

MS. McDOWELL: Thank you, Your Honor.
BY MR. CEDARBAUM:
Q. Again, Mr. Williams, there has been no argument by staff that page 7 was created by you. But the top half of the page does just duplicate the exact information that you provided on page 2. Is that correct?
A. I don't know. I haven't checked the work that staff did on this.
Q. I'm not talking about -- all I'm asking you to do is -- let's go to page 2.
A. Right. And I haven't done that comparison of the data. I looked at our response that we provided.
Q. Do you see any differences between page 2 and the top half of page 7 above line nine?
A. If you give me a minute, I well check it.
Other than items are carried to decimal place, which wasn't how it was done originally, the numbers on the top part of the table look consistent with my response to the data request.
Q. And then looking at the numbers on the bottom half of the page, below line nine, doesn't that just convert dollar amounts on the top half to percentages on the bottom half?
A. I don't know. I didn't do the calculations. I

haven't checked the work, so I can't tell you what they actually do. I believe that was the intent of staff by doing this, but again, I have not checked the work.

JUDGE MOSS: I think the math will speak for itself, Mr. Cedarbaum. We have the numbers and the witness' response.

MR. CEDARBAUM: Fair enough.

JUDGE MOSS: I can actually do those divisions myself, with help from --

MR. CEDARBAUM: Your Honor, I would offer Exhibit BNW-18CX.

MS. McDOWELL: Our objection is noted for the record?

JUDGE MOSS: All right. The page 7 is, as far as I'm concerned, merely an illustrative exhibit. To the extent Mr. Cedarbaum wishes to make a point, or someone else, concerning the data, then again math is math. Its laws are immutable, more or less. So we'll take it that way. I will admit the exhibit as offered.

(Exhibit BNW-18CX was admitted.)

BY MR. CEDARBAUM:

Q. Mr. Williams, if you could look at page 10 of your rebuttal, lines one through eight. You discuss increased borrowing costs from, or ratings downgrade that you would believe would result from Mr. Elgin's

capital structure recommendation. Is that correct?
A. I think it's Mr. Elgin's own testimony that his capital structure would result in a downgrade, at least to the triple B level.
Q. Is your answer to my question a yes or a no?
A. Could you repeat your question?
Q. You discuss in this portion of your testimony a ratings downgrade that you believe -- excuse me, the increased borrowing costs that you believe would occur given a ratings downgrade from Mr. Elgin's capital structure recommendation.
A. Correct. What's discussed here is the impact on the cost of debt, for debt issuances since 2006, if the company's ratings had been lowered to the triple B level.
Q. So you conclude on line eight that the company's cost of debt would go up 84 basis points to 6.125 percent?
A. Yes.
Q. Now, if we look at Exhibit BNW-19CX. Do you have that?
A. I believe I do. That's the copy of the work paper that was put in as the cross-exhibit?
Q. That was my question. The exhibit is your work paper supporting the 6.125 percent that you referenced

in your testimony.

A. Correct. This is the support for those calculations.

Q. The 6.125 percent itself is shown on the last line, three columns over from the right under cost of debt?

A. Correct.

Q. So the way this works, just generally speaking, is that the top half of the exhibit shows, or the top half of your work paper, shows the actual debt issuance made by PacifiCorp since the acquisition by MEHC. Is that right?

A. That is right.

Q. And the bottom half shows your calculation of the same debt issuances assuming the ratings downgrade from Mr. Elgin's proposal?

A. Correct. What the incremental cost on those debt issuances would be.

Q. For example, on line one, at the top, in August of 2006, PacifiCorp issued $350 million worth of debt with a coupon rate of 6.1 percent. Is that right?

A. Yes.

Q. And then at the bottom half of the page, on line one, you've assumed that PacifiCorp for that same issuance would have received a coupon rate of 6.814

percent based on what APS received. Is that right?

A. That's right. Arizona Public Service issued debt about that same time period, so I merely used the rate that they incurred.

Q. And the surrogate companies that you've used in this work paper for those calculations, for lines one through 12 at the bottom, are the companies footnoted, footnoted in A through L?

A. Yes, they are.

Q. And none of those companies are Washington state utilities. Is that right?

A. I believe that's correct.

Q. Is it also correct that only Westar, on footnote F, Westar Energy, that's the only company that appears in Dr. Hadaway's comparable group?

A. I don't know. I haven't cross-referenced to Dr. Hadaway's comparable group.

Q. If the witness could be provided a copy of Mr. Elgin's KLE-3. Unless you have it with you. I have a few questions on that.

A. I don't think I do.

MS. WALLACE: Your Honor, may I approach the witness?

THE WITNESS: I'm sorry. I do have this.

This is Mr. Elgin's direct testimony?

MR. CEDARBAUM: Right. Yes.
BY MS. McDOWELL:
Q. KLE-3. The title is Avista Corporation cost of debt detail. You see that? You have that in front of you?
A. Let me turn to it.
Q. It's a one-page exhibit.
A. Yes, I have that.
Q. On line 11, this shows that Avista issued new bonds in 2006 at a coupon rate of 5.7 percent. Is that correct? It's column D.
A. Yeah, I'm just looking at it now. I believe it's correct. Line 11, right. Okay.
Q. And that would compare to the cross exhibit we were looking at for PacifiCorp's August 2006 debt issuance of a coupon rate of 6.1 percent?
A. Let me turn back to that a minute so I can do that comparison.
Which line are you referring to for PacifiCorp?
Q. I'm looking again at CX-19. It shows at the top of the page an August 2006 issuance by PacifiCorp, a coupon rate of 6.1 percent on line one.
A. Okay.
Q. Finally, on your Exhibit 15, this is your calculation of PacifiCorp's cost of long-term debt. Is

that right? As of June 2013?

A. I'm sorry. I'm confused. I thought we were talking about the Avista cost of debt and the PacifiCorp cost of debt.

Q. I'm going to compare PacifiCorp's cost of debt and your BNW-15 with what Mr. Elgin showed for Avista. So I apologize for the cumbersome nature of this, but --

A. Okay. So give me a minute to look the BNW-15, if I could.

Q. Okay.

A. Okay.

Q. This is on page 1, line eight. This shows your calculation of PacifiCorp's cost of long-term debt of 5.287 percent.

A. Yes. 5.287 is the weighted average cost of long-term debt.

Q. Thank you, Mr. Williams.

MR. CEDARBAUM: I think it's best that I just leave it at that, rather than more flipping back and forth between the documents.

JUDGE MOSS: All right. Thank you. Is that all your questions then?

MR. CEDARBAUM: Yes, it is.

JUDGE MOSS: Ms. Davison, do you have questions for this witness?

MS. DAVISON: Your Honor, I do not. I think Mr. Cedarbaum covered the ground for me.

JUDGE MOSS: All right. Very well.

MS. DAVISON: Thank you.

JUDGE MOSS: Do we have any questions from the bench?

COMMISSIONER GOLTZ: I'd prefer to wait for the panel for my questions.

JUDGE MOSS: I keep forgetting we have this panel. My oversight. It is an unusual approach.

COMMISSIONER JONES: My policy-related questions will be for later, but I just have a couple of clarifying questions.

THE WITNESS: Sure.

COMMISSIONER JONES: If that is okay.

JUDGE MOSS: That's fine.

COMMISSIONER JONES: This could be a bench request. Let me see if you have this in your testimony already. But could you submit the most recent capital structure for the company based on a 10-K filing? And I'd like it submitted in two ways: One is the actual in the 10-K, and the other is with the debt imputation adjustments that you describe in your testimony that S & P does.

THE WITNESS: Okay. I think I can answer the first part of your question from the 10-K.

COMMISSIONER JONES: Okay.

THE WITNESS: I believe that was in my rebuttal testimony.

COMMISSIONER JONES: I think it was too. What page was it? Let me see. Here we go. It's on page 4 and 5 and 6.

THE WITNESS: On page 6, you see table three.

COMMISSIONER JONES: Yes, I'm there.

THE WITNESS: The June 30th, 2013 column is the most recent capital structure from the 10-K.

COMMISSIONER JONES: Just stop there a minute. On page 5, though, you have table one where you have a common equity layer of 52.22 percent.

THE WITNESS: Right.

COMMISSIONER JONES: So what the reason for the difference between 52.22 and 51.17?

THE WITNESS: Sure. If you look at table three again on page 6, the 52.22 is an average of the quarter's during that fiscal year.

COMMISSIONER JONES: Okay. I see.

THE WITNESS: So we're showing each of the quarter ends what the capital structure was. So you'll see June 30th, 2012, 52.19, moving to 52.56, 52.57, 52.64, and then 51.17. And it dips in the June quarter, because there's some large financing activities that happen.

COMMISSIONER JONES: Okay.

THE WITNESS: But then those quarters average the 52.22.

COMMISSIONER JONES: Got it. So maybe for the bench request, you could just do the -- I think in your direct testimony, in some of your exhibits, you talk about the estimated S & P debt imputation on PPA's, power purchase agreements.

THE WITNESS: Yes.

COMMISSIONER JONES: Maybe you could just update it.

The other question, clarifying in nature, is what is your cap X spend for this year, 2014, and 2015, because I think it is relevant to the capital structure discussion.

THE WITNESS: I believe each of those years is in the range of 1.2 to 1.3 billion. We are in the midst of our annual planning process right now, so the '14 and '15 numbers will be revised, but I believe they're in that ballpark, subject to check.

COMMISSIONER JONES: Okay. One last one. I'd like to know what your dividend payout ratio has been to the parent company, MEHC, over the past, let's say the current year, let's take it '12, '13, '14, expected. Because you state in your testimony that you make dividend payouts to the parent company to keep the equity layer under 53 percent. Correct?

THE WITNESS: Correct.

COMMISSIONER JONES: So if you could just provide a listing of dividend payments made to the parent company.

THE WITNESS: I believe it's in one of the responses to the data request. If it helps you, I could point you to it.

COMMISSIONER JONES: Which one is it?

THE WITNESS: I think it's public counsel 18.

JUDGE MOSS: Is that in the record anywhere?

MS. McDOWELL: It is not.

JUDGE MOSS: Let's furnish that as part of the response to bench request five.

MS. McDOWELL: We will do that, Your Honor.

COMMISSIONER JONES: That's all, Your Honor.

THE WITNESS: Can I just point out that's only through 2011. There's projected '12 and '13, and I can update those with actuals, if that would help you.

COMMISSIONER JONES: That will be helpful. The overall policy, you're the vice-president and treasurer I know, but is the overall policy to make dividend payouts to the parent company consistent with the 53 percent below equity layer?

THE WITNESS: Yes, it's not quite that simple. We look at all the financial metrics and try to have a capital structure that provides the metrics that the agencies are looking for. One of those is the capital structure, though. But it's a combination of that and the other cash flow, interest coverage, debt measures. But generally the capital structure will be 52, to maybe declining slightly over the next multi-year period.

JUDGE MOSS: Any redirect?

MS. McDOWELL: Yes, Your Honor.

REDIRECT EXAMINATION

BY MS. McDOWELL:

Q. Mr. Williams, Mr. Cedarbaum asked you some questions about Avista's cost of debt in 2006 versus cost of debt that you had estimated in your table, your work papers. Do you remember those questions?

A. Yes. I was confused about that. I don't know if we ever completed that conversation.

Q. I just wanted to clarify. Are you aware Avista's current cost of long-term debt?

A. Yes.

Q. That's in your testimony, isn't it?

A. Yes. I believe the cost of the long-term debt that was stipulated in their last settlement that staff and other parties supported, and was approved by the commission, the cost of the debt was 5.74 percent, significantly higher than the 5.29 percent that the company is proposing here.

Q. Mr. Williams, can you turn to page 13 of your rebuttal, please. So it's 14T, BNW-14T, page 13.

A. Okay. I'm there.

Q. Take a look at line three.

A. Yes.

Q. I believe you said 5.74 percent?

A. I should have said 5.72 percent.

Q. I thought that would refresh your recollection.

A. Yes.

Q. So PacifiCorp's updated cost of debt in its rebuttal is lower than that. Correct?

A. Yes. 5.29 percent. Significantly lower than the 5.72 that I guess is currently in Avista's rates.

Q. So, Mr. Williams, you were asked some questions about staff's illustrative exhibit that they attached to your data request response, and I believe that's 18-CX, page 7.

A. Yes.

Q. Do you have that.

A. Yes.

Q. So there is a line that was added in that has a short-term debt percentage. It says as a percentage of total dollars. Do you see that?

A. I do.

Q. And it looks like to me that certain time periods have short-term debt and certain don't. Can you explain whether the periods in which short-term debt is displayed, whether that demonstrates that short-term debt was held throughout that particular period, or is it more a point in time?

A. Yeah, no, this is strictly a point in time. This is at these certain dates. So this is just at the end of each year. So you shouldn't imply that the short-term debt balance was carried all during the year.

So, for instance, in 2011, the high short-term debt balance of 688 million, that really followed maturities of several significant series of long-term debt in November. And rather than try to refinance those in December, when the capital markets are sometimes more difficult because of holidays and year-end activities, the company then delayed the long-term financing until January of 2012. On January 3rd, we issued 650 million of new long-term debt.

That's a very transitory number. The 688 was only in place for a few days, and was immediately paid off with the results of that long-term financing. So I guess, you know, the important message is not to read these balances as existing through the whole year.

Q. Just to be clear, Mr. Williams, does the company currently have short-term debt on its balance sheet?

A. The company does not currently have any short-term debt.

MS. McDOWELL: That's all I have. Thank you.

JUDGE MOSS: Okay. Thank you.

MR. CEDARBAUM: Your Honor, I'm sorry. I actually -- my oversight. I forgot to have Mr. Williams identify Exhibit BNW-20CX. If it's necessary, I can do that, and I would just offer my cross exhibits.

JUDGE MOSS: Okay. Let's just note that it's his response to staff data request 275.

And you're going to offer 20. How about 19?

MR. CEDARBAUM: Yes.

JUDGE MOSS: And what about 17?

MR. CEDARBAUM: Yes.

JUDGE MOSS: 17 was the excerpt from the order, so we'll have it in for convenience of the record. That's not controversial.

Any objection to 19 or 20?

MS. McDOWELL: I don't have objections to those, Your Honor.

JUDGE MOSS: All right. Then we'll admit them as marked.

(Exhibits BNW-17CX, BNX-19CX and BNW-20CX were admitted.)

JUDGE MOSS: With that, Mr. Williams, we're finished with you for the moment, but we'll have you I think after lunch.

You want a question?

CHAIRMAN DANNER: I'm sorry. I just had one question.

The short-term debt numbers in this exhibit are as of December 31st of each year. I just want to clarify. Were there -- is a dash -- it means there was no short-term debt on December 31st, but it does not mean it was not any during the year. Is that correct?

THE WITNESS: Right. That's just again the single point in time. But generally if you look in the work papers or some of the exhibits I presented, quarterly capital structure included short-term debt balances, and for most quarters the company does not have any short-term debt, again, at those quarter-end periods.

CHAIRMAN DANNER: So in 2012, was there any short-term debt?

THE WITNESS: There might have been small amounts periodically, but I think it -- there was no significant amounts, and I don't believe there's any in any of the quarter ends, subject to check. But again, it's not a significant amount.

CHAIRMAN DANNER: Okay. Thank you.

JUDGE MOSS: With that, Mr. Williams, we will let you step down for the moment, and I think the panel will be after lunch, certainly.

I thank you for your testimony so far.

Do you have 45 minutes for Mr. Gorman?

MS. McDOWELL: I believe I do.

JUDGE MOSS: You have that designated, but do you actually have it? I'm trying to decide whether to start him before lunch.

MS. McDOWELL: You know, it's just so hard to tell. It all depends on the answers. But I do have at least 30 minutes, and I might estimate it as 45 minutes.

JUDGE MOSS: All right. Let me ask the preferences of the bench. 45 minutes? Go ahead, press forward? Okay.

Let's go ahead and press forward. If we spill over into the traditional lunch hour a little bit, then people will just have better appetites.

MICHAEL P. GORMAN

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Please be seated.

Anything preliminary, Ms. Davison?

MS. DAVISON: No, Your Honor. Mr. Gorman is available for cross-examination. Thank you.

JUDGE MOSS: PacifiCorp has indicated cross.

Proceed.

MS. McDOWELL: Thank you, Your Honor.

CROSS-EXAMINATION

BY MS. McDOWELL:

Q. Good morning, Mr. Gorman.

A. Good morning.

Q. Looking at your testimony at page 1, just to get our bearings here, line 22. You have recommend a 9.2 percent ROE in this case. Are you correct?

A. Yes.

Q. Now, that produces a 7.25 percent rate of return. Does that sound right?

A. With my recommended capital structure, yes.

Q. And that's based on PacifiCorp's original 5.37 percent cost of debt. Is that correct?

A. Yes.

Q. Do you understand that PacifiCorp reduced its cost of debt in its rebuttal to 5.29 percent?
A. That's my understanding, yes.
Q. Have you calculated the adjusted rate of return using PacifiCorp's updated debt costs?
A. I have not.
Q. Would you accept subject to check that the rate of return that you recommend, including PacifiCorp's updated debt cost, is now lower at 7.21 percent?
A. I will accept that subject to check, yes.
Q. Now, I'd like to direct your attention to one of the PacifiCorp's cross-exhibits, which is MCG-30CX. That's a transcript from I think the last time you testified here in Washington just a few months ago.
Do you recall providing testimony in Puget's expedited rate filing case in, let's see, May of 2013?
A. Yes.
Q. Do you recall testifying at that time that it was important to look at the observable market evidence of changes in cost of capital today relative to the time that the last order was issued?
A. Yes.
Q. In particular, do you recall recommending review of current utility bond yields as observable market evidence on current cost of capital for electric

securities?
A. Yes.
Q. Turning back to your testimony at page 3, and on lines nine through 12, you explain the justification for the fact that you have recommended a lower ROE in this case than PacifiCorp currently has. Do you see that, lines nine to 12?
A. Yes.
Q. Specifically I'm asking about the testimony where you indicate that your recommendation is justified based on clear evidence that capital markets today are lower than they were in 2012 when the rate settlement process took place and the rate settlement was ultimately approved. Do you see that?
A. Yes.
Q. You're referring there to PacifiCorp's 2011 general rate case?
A. Yes.
Q. Moving down the page to the bottom of the page, you there provide some clear evidence, in your words, of the changes in the capital markets and what you referred to as the comparison of bond yields to this case and the last case. Do you see that on line 17?
A. I do.
Q. So then moving to page 4, where you put out that

table, do you have that at the top of the page?

A. I do.

Q. And your table shows a decline in interest rates from that 2011 case that you dated -- the order was actually entered in March of 2012. That you have a 13-week period ending February 2012. Do you see that?

A. Yes.

Q. And it's a 4.34 percent number?

A. Yes.

Q. And you compare that to the current case, a number that you derive from June of 2013 of 4.14 percent. Do you see that?

A. I do.

Q. Now, can you turn to MPG-31CX. And this is a data request that PacifiCorp served on you asking you to confirm the update to Dr. Hadaway's table one provided to staff. Do you have that?

A. Yes.

MS. DAVISON: Excuse me. Just so the record is clear, are you talking about data request 2.4?

MS. McDOWELL: That's correct.

MS. DAVISON: Thank you.

MS. McDOWELL: 2.4 to Boise, which was referenced staff 276. I know it's confusing.

BY MS. McDOWELL:

Q. So in that data request, you confirm the accuracy of this update. Correct?

A. Yes.

Q. Now, this table shows that utility bond yields have increased 68 basis points since April 2013. Correct? From April 2013 to July 2013?

MS. DAVISON: Again, excuse me, just so the record is clear, which table are you referring to? Is it the third page of your --

MS. McDOWELL: Third page, 276.

BY MS. McDOWELL:

Q. Do you have that, Mr. Gorman?

A. I do.

Q. And the question is bond yields have increased from April to July by 68 basis points. Correct?

A. Single A utility bond yields increased by 68 basis points in that time period.

Q. So to update your chart, on page 4, using that, the most recent three-month average, wouldn't you agree that in the single A utility bond rated column you would need to replace that 4.14 percent number with the number of 4.46 percent, which is the average of the last three months on that chart?

A. If I was going to compare the number in the 2012 time and date of the decision with the three-month period ending July 13, it would be 4.46, yes, for the single A rated utility bond.

Q. And so that would mean if you carried over to the yield change number, instead of it being a number of minus 20 percent, it would swing to plus 12 percent. Correct?

A. 12 basis points. Yes, .12 percent.

Q. Thank you.

So then going down the page to your testimony on lines seven to nine, there you, based on the conclusion that the yield change had declined, you indicate that utility bond yields have declined by approximately 20 to 40 basis points since PacifiCorp's last case. Do you see that?

A. Yes. Yes. Sorry.

Q. So because your table one now shows an increase in utility bond yields, shouldn't that sentence be updated to state: The increase in utility bond yields suggests that PacifiCorp's cost of capital is higher than it was in the 2011 rate case?

MS. DAVISON: Your Honor, I object. I don't believe Mr. Gorman has agreed that his table should be corrected. I think he simply referred to the numbers provided in the chart. So I think the record should be clear that he did not in fact agree to update his chart.

MS. McDOWELL: Well, he's free to answer my question, Your Honor.

JUDGE MOSS: Yes, I think he can answer the question.

Go ahead.

BY MS. McDOWELL:

Q. Mr. Gorman, would you like me to restate my question?

A. No. Let me read the testimony, please.

Well, the change in the utility bond yields is comparable to 12 basis points higher now than it was at the time I did my analysis. That would be one indication that the return on equity is higher now than at the time I did my study. And that is observable evidence on the cost of utility capital.

Q. Thank you, Mr. Gorman.

So can you now turn to Cross Exhibit 28CX.

A. I don't know if I have them listed by cross exhibit. Can you describe this one you're referring to?

Q. This is your response testimony in the recent Puget case that we were talking about, dated August 26, 2013. It's a four-page exhibit.

A. Yeah, I have that.
Q. Now, can you turn to page -- I think it's page 4 of that exhibit.
A. I'm there.
Q. There you have a similar chart to the one we just went through in your PacifiCorp testimony. Do you see that?
A. I do.
Q. Now, just to get our bearings, can you respond as to what your ROE recommendation was in the most recent Puget case? And I believe it is in your testimony.
A. Yeah, I think it's at page 3. 9.3 percent.
Q. So you were at 9.3 percent in this case. And then in the prior case that you referenced, which would be docket 111048, you were at 9.7 percent. Does that sound right?
A. I'm sorry. Where are you at?
Q. Back to your chart, on page 4, where you're comparing current case, the change in capital markets between current case and the prior docket, which is UE-111048. Do you see that? I'm asking you what your recommendations are in the Puget current case and what the recommendations were in the docket UE-111048. Are you with me?

A. I'm looking for the 975.

MS. DAVISON: I guess, Your Honor, while he's looking, I would object on the basis of relevancy. I'm not sure what the relevancy is of a recommendation of Mr. Gorman for Puget Sound Energy many years ago, has bearing on this particular case.

JUDGE MOSS: 2012 wasn't all that many years ago, Ms. Davison.

MS. DAVISON: No, it's a previous case that she's asking about.

MS. McDOWELL: I think I can tie it up.

JUDGE MOSS: I'm going to overrule the objection.

BY MS. McDOWELL:

Q. Mr. Gorman, just to help you out, the next cross exhibit is 29CX, that testimony in the prior case, which has your recommendation in it. Do you have that?

A. I want to make sure I'm at the right spot.

Q. Yes, I know. I'm sorry it's confusing.

A. I have a page from a piece of testimony for Puget Sound Energy, and it summarizes my recommendations as awarding PSE a return on equity of either 9.5 percent or 9.7 percent.

Q. Correct. And it was 9.7 if the commission did not order, I think it was decoupling or some version of an automatic adjustment mechanism, and 9.5 if it did. Is that correct?

A. That's my recollection. Have to review the testimony, but I believe that's correct.

Q. So basically going back to your chart then on page 4 of 28CX where you had current case and then the prior docket. Just so we have our bearings, current case 9.3, previous case 9.7? Is that correct?

A. That's correct.

Q. So your recommendations in the Puget cases in both instances are higher than your recommendation in this case, the 9.2 percent. Correct?

A. Yes.

Q. And in both cases, the bond yield rate that you refer to at 4.14 percent and 4.40 percent are lower than the 4.46 percent number we just discussed with respect to the most current yield when we were looking at the PacifiCorp case. Correct?

A. Yes.

Q. So based on observable market evidence, utilities' cost of capital is higher now, but your recommended ROE for PacifiCorp is lower than what you recommended in the prior case. Is that correct?

A. Well, based on market evidence, at the time I did my analysis, those are my results. And the analyses that were conducted in each of those studies were very similar.

I would also point out that the 9.8 percent PacifiCorp was awarded in its previous rate case, in the litigation rate case, the bond yields were considerably higher than they are now, over a hundred basis points higher in the previous case, where PacifiCorp in a contested proceeding was awarded an 9.8 percent return on equity and a 49.1 percent common equity ratio. At that time A rating utility bond yields were about 5.6 percent.

Q. And were you here when Dr. Hadaway was talking about those numbers with Mr. Cedarbaum this morning?

A. Yes.

Q. And he was explaining that based on the increases that have occurred since this update, the rates are actually quite comparable to what they were in the time period of the 2010 case?

A. Well, I would disagree with that testimony. The bond yields are what the bond yields are. They are clear observable market evidence. And at the time PacifiCorp was awarded a 9.8 percent return on equity in the litigated proceedings, bond yields were about 114 basis points higher then than they are right now, even with the update through July of this year.

Q. But not with the update through August, which is what Dr. Hadaway testified to.

A. They are still higher, considerably higher, probably still in the range of a hundred basis points higher.

Q. So, Mr. Gorman, can you turn to page 14 in your testimony.

A. I'm there.

Q. There you recommend a capital structure of 49.1 percent for PacifiCorp. Do you see that?

A. Yes.

Q. And that's instead of the 52.2 percent capital structure proposed by PacifiCorp?

A. Correct.

Q. Now, at page 13, line four, you provide the basis for your hypothetical. At lines three to four you provide the basis for your hypothetical, capital structure. And the basis is basically that it be continued because it was used in the last couple of cases.

Then you indicate this capital structure has been reviewed by credit rating agencies, which has contributed towards the stable credit outlook that PacifiCorp has most recently received from S & P and Moody's. Do you see that testimony?

A. Yes.

Q. So do you recall that PacifiCorp asked through a data request about how you knew whether the credit rating agencies had actually reviewed PacifiCorp's hypothetical capital structure?

MS. DAVISON: Do you have a DR reference?

MS. McDOWELL: It's MPG-24CX.

BY MS. McDOWELL:

Q. So it's another cross exhibit, Mr. Gorman, which would be data request 1.2 to Boise. Do you have that?

A. I recall the data request.

MS. DAVISON: Excuse me. It's in the cross-examination exhibits. Do you have that, Mr. Gorman?

THE WITNESS: Yes, I have it.

BY MS. McDOWELL:

Q. Do you recall a data request and PacifiCorp asked you how you knew the facts you were testifying to here?

A. Yes.

Q. In response to that data request, you admitted that it was just an assumption based on the fact that the commissioner's rate decision was publicly available. Correct?

A. Yes.

Q. Now, can you turn to page 41 of your testimony, please, specifically lines 11 through 13. There you acknowledge that S & P reviews total consolidated PacifiCorp metrics. Correct?
A. Yes.
Q. They're not just looking at Washington on a stand-alone basis. Correct?
A. Well, specifically it's Washington retail on a stand-alone basis is what my credit metric analysis and my testimony is based on.
Q. But I was asking you here about S & P. And they normally, Standard & Poor's, normally looks at financial ratios on a consolidated PacifiCorp basis, not a Washington stand-alone basis. Correct?
A. Well, that's what I'm disagreeing with. Standard & Poor's does look at it consolidated basis, but what I did was look at Washington retail in my testimony.
Q. I understand. I'm sorry if my question is unclear. I was just asking about what S & P normally did.
A. Yeah. PacifiCorp consolidated basis, correct.
Q. Thank you.
Do you have Mr. Williams' testimony with you?
A. I have his rebuttal with me.

Q. I was actually going to ask you a question about his direct testimony.

A. I do not have it.

JUDGE MOSS: Perhaps you have a copy for the witness?

MS. McDOWELL: I could provide my copy to the witness, although -- excellent.

JUDGE MOSS: It doesn't have any marginal notes in it, does it?

MS. McDOWELL: I was a little reluctant to give mine just in case, but we have a perfectly clean copy here for Mr. Gorman.

Thank you.

BY MS. McDOWELL:

Q. I'd like you to take a look at page 15 of the table that follows line 14.

COMMISSIONER JONES: Are you on direct or cross?

MS. McDOWELL: I'm in the direct testimony of Mr. Williams.

JUDGE MOSS: What was the page?

MS. McDOWELL: And the page is 15.

JUDGE MOSS: Thank you.

MS. McDOWELL: The line number is 14, the table that follows line 14.

Do I have everybody with me?

CHAIRMAN DANNER: Yes.
JUDGE MOSS: Go ahead, Ms. McDowell.
MS. McDOWELL: Thank you.
BY MS. McDOWELL:
Q. So it's true, isn't it, that in all jurisdictions except Washington PacifiCorp has an approved equity ratio in excess of 52 percent based on this table?
A. Well, that's Mr. Williams' testimony. I haven't confirmed this.
Q. Well, aren't you familiar with at least some of these results because you've participated in cases involving PacifiCorp in other jurisdictions?
A. Yes.
Q. Isn't it true that in some of these other cases you have recommended significantly higher equity components for PacifiCorp than you've recommended in this case?
A. Well, I haven't taken issue with capital structures proposed by the companies in the other cases, so I think there's a slight distinction there.
Q. You've accepted a higher equity ratio than what they're proposing in this case. Correct?
A. Other jurisdictions don't use hypothetical capital structures. In those jurisdictions I only took

issue with any technical problems I had with the capital structure.

Q. Well, let me ask you about a specific case in which you provided testimony, the company's most recent Utah rate filing. And that is your testimony there at 25CX, a cross exhibit.

A. I have it.

Q. You have that?

A. Yes.

Q. Can you turn to page 2 of that exhibit, please.

A. I'm there.

Q. There you reference the company's proposed capital structure, and it included a 52.1 percent equity component. Do you see that?

A. I do.

Q. If you turn to your page 4, you recommend a 51 percent number. Do you see that?

A. I do.

Q. And you recommended that based on adjustments you made from the actual capital structure. Correct?

A. Yes.

Q. And then can you turn to Cross Exhibit 26CX?

A. Can you describe that, please.

Q. It should be the next in the file, and it's rebuttal testimony of Bruce Williams in the same case.

A. I'm there.

Q. Do you respond that Mr. Williams responded to the adjustments that you made and demonstrated that certain of the investments that you were challenging as being outside of the company's rate base were actually within the company's rate base?

A. Yes.

Q. Do you recall that?

A. I do.

Q. And then if you go to the next exhibit, which would be your surrebuttal testimony dated July 18th, 2012, and that's Cross Exhibit 27CX. Do you have that?

A. July 18th, 2012?

Q. That's correct.

A. Yes.

Q. If you turn to page 2 of that exhibit. You state at lines 29 through 30 that as a result of Mr. Williams' rebuttal testimony you were no longer recommending adjustments to the company's proposed capital structure. And the effect of that is that you accepted the company's proposed actual capital structure of 52.1 percent in that case. Correct?

A. Well, it is accurate that I withdrew my adjustments to the company's capital structure, but it's not true that I found that the capital structure was reasonable and recommended it; simply renewed my proposed adjustments, because those adjustments were, with respect to the Bridger mine, was not accurate, so I withdrew it.

Q. Because the Bridger mine is in fact in PacifiCorp's rate base?

A. Yes.

Q. So this testimony was filed in July 2002. Correct? You see that on the front page?

A. 2012?

Q. Yes. July 2012. Excuse me. I misspoke.

A. Yes.

Q. So do you understand that Mr. Williams calculated the company's actual capital structure in this case using a five-quarter average?

A. Yes.

Q. And that five-quarter average would have included the time period in which you testified in this Utah case. Correct? July of 2012 is within that five-quarter period?

A. I need to confirm that, but I believe that's probably accurate.

Q. Now, can you turn back to Mr. Williams' direct testimony, and this time I'd like to take a look at page 14.

A. I'm there.

Q. I actually wanted you to take a look at the middle of that chart, the comparison of capital structures, and have you take a look at the June 2012 actual numbers. Do you see that?

A. Yes.

Q. And it's true, isn't it, that PacifiCorp's, based on this chart, PacifiCorp's actual capital structure has not changed since that July 2012 period to the present time?

A. Based on this chart, that appears to be correct.

Q. Your testimony in this case doesn't acknowledge that you've accepted PacifiCorp's actual capital structure in the 52 percent range in other jurisdictions. Correct?

A. Well, it does now. Well, actually no. I've not accepted it as a reasonable capital structure. In the other jurisdictions, if -- they make their rate making determinations on the actual capital structure with reasonable adjustments.

To the extent I offered reasonable adjustments, I took issue with the company's cap structure. I did not recommend a hypothetical capital structure in the other jurisdiction.

Q. So do you recall PacifiCorp recently asking you to provide all testimony where you had provided, or excuse me, where you had supported a higher equity ratio for integrated electric utilities during the last 24 months? Do you recall that data request?

A. Yes.

Q. Do you recall that you responded to this by objecting on the basis that it was unduly burdensome, overbroad and irrelevant?

A. Well, I would have to do an analysis to answer the question.

Q. And you refused to do that analysis?

A. Well, I didn't have time to do the analysis. But I offered you the testimony that allowed the analysis to be completed.

Q. But you pointed to 29 pieces of testimony that you produced in response to another data request. Correct?

A. Yes.

Q. Was that testimony all of the testimony you filed in the last two years on the cost of capital?

A. For integrated electric utility companies, if it wasn't, it was intended to be.

Q. So can you turn to page 43 of your testimony, please.

A. I'm there.

Q. And at line one, when you're talking about your financial metrics analysis, and this is the analysis you did to test the safety of your particular recommendations in this case, you concluded that the -- let's see -- at your recommended 9.20 and proposed capital structure, PacifiCorp's financial credit metrics are supportive of its current A-minus utility bond ratings. Do you see that?

A. I do.

Q. Would you accept, Mr. Gorman, subject to check, that PacifiCorp's current rating is actually single A?

A. I would not. Their secured rating is single A. Their unsecured rating is A-minus. It's clearly outlined in Mr. Williams' testimony.

Q. So you checked it against the lower rating, not the higher rating?

A. Well, to the extent the lower rating is maintained, the higher rating, the secured rating, is going to remain above the lower rating. So the analysis generally is directed at whether or not the cash flows produced in the rate making calculus would support the unsecured bond rating. If that is accomplished, then the secured bond rating is going to be stronger that be then secured bond rating.

Q. So, Mr. Gorman, in your analysis, you only

included a small portion of the amount of debt that S & P imputes in its credit rating analysis of PacifiCorp. Correct?
A. Well, on an off balance sheet basis I included what I was able to identify as related detail of the operations.
Q. So you included approximately 275 million of imputed debt, whereas S & P actually imputes 850 million. Is that correct?
A. They do, yes.
Q. So on page 42 of your testimony, you provide the results of your analysis, and you indicate that on lines 15 to 16 --
A. I'm sorry.
Q. Page 42 of your testimony?
A. Oh, I'm sorry. Yes. I'm there.
Q. -- lines 15 to 16, and you indicate that your analysis indicates that PacifiCorp will be provided an opportunity to produce a debt-to-EBITDA ratio of 3.2 times. Do you see that?
A. I do.
Q. Now, I wanted to turn your attention back --
A. Could I explain that what I was referring to, as I explained earlier in this testimony, is that is on retail jurisdictional cost of service, not on a

consolidated company basis.

Q. So I was about ready to ask you about that, because on page 13 of your testimony you have a quote to S & P beginning on line 8. Do you see that?

A. Yes.

Q. In there, within that quote, on line 14, it refers to S & P's most recent determination of the EBITDA ratio for PacifiCorp for 4.3 times. Do you see that?

A. I do.

Q. So just so we understand it, your testimony is that based on your financial metrics analysis the reduction of PacifiCorp's ROE by 60 basis points and the reduction of its actual capital structure to a hypothetical level will improve PacifiCorp's EBITDA by 110 basis points? That's your conclusion in this case?

A. That's not my conclusion in this case. My conclusion in this case is the earnings entitlement and the cash flow entitlement from jurisdictional cost of service suggests that for retail operations in Washington the cost of service will produce the credit metrics outlined in my testimony.

Now, those will be part of the consolidated financial metrics of PacifiCorp that credit rating agencies will consider when they look at all jurisdictions and nonregulated activities of PacifiCorp. But my concern in this case is whether or not the rate of return I'm recommending being included in cost of service in this case and the rates that will be charged to Washington retail customers will provide fair compensation to PacifiCorp investors and will help support its financial integrity. That's the objective of my study here.

MS. McDOWELL: That's all I have.

I'd like to offer our cross exhibits. I'd like to offer all of the prefiled cross exhibits except CX23. So that would be 24 through 31.

JUDGE MOSS: Okay. Any objections?

MS. DAVISON: Your Honor, if I take these one at a time, on Cross Exhibit 24, I have no objection. On the series that follows, I guess just to be clear about it, PacifiCorp has offered excerpts of testimony from other jurisdictions, which is precisely what we had our stipulation to -- or we did not have a stipulation to for Cindy Crane. So I feel like there should be a little consistency. Either excerpts of testimony from other jurisdictions should not come in on the basis of relevancy or it should come in on a consistent basis.

So I guess personally I think it's fine for this testimony to come in, but I'm giving this long-winded discussion because it's a preview of the Cindy Crane cross-examination exhibits where we have done precisely what PacifiCorp has done here.

JUDGE MOSS: And you're anticipating an objection so now you're responding to it before --

MS. McDOWELL: And she's misstating my objection too.

JUDGE MOSS: In any event. I don't perceive you to have an actual objection here, so --

MS. DAVISON: That is correct.

JUDGE MOSS: We'll admit these exhibits as marked.

(Exhibits MPG-24CX, MPG-25CX, MPG-26CX, MPG-27CX, MPG-28CX, MPG-29CX, MPG-30CX and MPG-31CX were admitted.)

MS. DAVISON: Thank you.

JUDGE MOSS: The witness' prior testimony is fair game.

All right. I'm finally on top of this now. We're going to have you back for a panel, so we won't have any questions from the bench at this time.

I guess we should break for lunch before Mr. Elgin. Let's do that.

Mr. Elgin, we'll give you the luncheon hour to -- I'm sorry, do we have some redirect?

MS. DAVISON: I had just a couple of questions on redirect. I can do them now or after.

JUDGE MOSS: Let's do them now if you have just a couple. Let's finish up Mr. Gorman at least prior to the panel.

REDIRECT EXAMINATION

BY MS. DAVISON:

Q. Mr. Gorman, you were subject to a lot of questions about updates to cost of debt and cost of capital, the changing bond markets. When did you do your analysis for this case?

A. Around -- it was completed in June of this year.

Q. Isn't it true that in any case that you testify in that you could do the same analysis in July or August or September, October, November, pick a month, and the numbers are going to slightly change?

A. They will change based on observable market evidence, yes.

Q. Based on the numbers that you were presented with on cross-examination, does that in any way impact the recommendation that you're making to the commission in this case?

A. Well, it's incomplete in that it only looks at observable utility bond yields. There's another component of -- the overall rate-of-return analysis is to look at the impact on equity valuations. While bond yields have been going up more recently, utility stock yields have been relatively flat.

So one consideration if I were to update would be to recognize higher bond yields right now, but also likely see a contraction in the equity risk premium, because equity utility stocks for -- utility stock values have been very stable, even in light of depressions in the value of bond yields and the increase in bond stocks and the increase in bond yields. All of that would be considered in an updated analysis.

In the end, my recommended return on equity would reflect that updated information in a complete analysis, recognizing those changes to bond yields as well as changes for stability in equity stock values. So the analysis of looking only at utility bond yields doesn't produce an entire picture of what evidence is available to measure accurately utilities' cost of equity.

MS. DAVISON: Thank you. I have no further questions.

JUDGE MOSS: Thank you.

Now, let's have some lunch, and we'll prepare ourselves for Mr. Elgin after lunch. Thank you.

Let's be back at 1:15 then. One hour.

(A luncheon recess was taken from 12:15 p.m. to 1:17 p.m.)

JUDGE MOSS: Mr. Elgin.

KENNETH L. ELGIN

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: Yes.

JUDGE MOSS: Thank you. Please be seated.

Anything preliminary, Mr. Cedarbaum?

MR. CEDARBAUM: No, Your Honor.

JUDGE MOSS: All right. Then Mr. Elgin is available for cross-examination then. Let's see, we have the company has indicated 30 minutes. So you may proceed.

MS. McDOWELL: Thank you, Judge Moss.

CROSS-EXAMINATION

BY MS. McDOWELL:

Q. Good afternoon, Mr. Elgin.

A. Good afternoon.

Q. Can you turn to page 2 of your testimony. Just to get an overview of your position, I think that's where you state your overall cost of capital recommendations in this case.

A. Yes.

Q. Now, your overall cost of capital is based on

cost of debt of 5.34 percent. Correct?
A. Yes.
Q. Now, do you understand that PacifiCorp has updated its cost of debt in this case?
A. Yes.
Q. And would you accept, subject to check, that use of PacifiCorp's updated debt costs in your cost of capital chart here would reduce the ROR to 7.00 percent?
A. If I were to use what Mr. Williams has testified, is that your question?
Q. That's correct.
A. That would only be part of it. But you would also have to include short-term debt, so it would depend. I don't know how or whether or not in your hypothetical it would include that.
Q. I'm just saying if you replace the 5.34 percent you have here with Mr. Williams' updated number, that would move your 7.03 percent to 7.00 percent.
MR. CEDARBAUM: I'll object to the extent that this question mischaracterizes Mr. Elgin's testimony. His total cost of debt on this page is a combination of long-term and short-term debt, and the question is asking him to assume it's all long-term debt.
MS. McDOWELL: This is one of those math questions that I'm just asking if he accepts that if you

replace the number of 5.34 with a number of 5.29, does that produce a 7.00 number.

JUDGE MOSS: I think what I heard Mr. Elgin say is he's not sure. I think you could ask him whether perhaps it would be lower than the 7.03, and that's about as far as you're going to get with the witness on the stand today.

MS. McDOWELL: Thank you.

BY MS. McDOWELL:

Q. If you replace the number 5.34 with the number 5.29, would it produce lower rate of return than a 7.0 percent?

A. Yes. That math is correct.

Q. Thank you, Mr. Elgin.

MS. McDOWELL: Thanks for your help, Judge.

JUDGE MOSS: Well, he's rolled the two together. I think that's what he's trying to explain. He can't give you a certain number.

MS. McDOWELL: I'm with you.

BY MS. McDOWELL:

Q. So, Mr. Elgin, can you turn to page 39 of your testimony.

A. Yes.

Q. So throughout your testimony here responding to the company's cost of capital recommendation, in several

places you refer to a number of 52.1 percent, indicating that that's the company's proposal for an equity component in the capital structure. Do you see that?
A. Yes.
Q. And it's true, isn't it, that PacifiCorp has never recommended a 52.1 percent capital structure in this case, a 52.1 percent equity ratio in this case?
A. That is a typo. It's 52.51 percent is the company's recommendation. That was -- I apologize for that.
Q. That was in the direct case. Correct?
A. Yes.
Q. 52.51 percent.
Mr. Elgin, do you recall that the company updated its capital structure in its rebuttal case, and proposed a 52.22 percent equity ratio?
A. Yes.
Q. And that 52.1 percent number, that was the company's recommended equity component in its 2010 general rate case. Is that correct?
A. I'll accept that subject to check.
Q. Now, in that 2010 PacifiCorp rate case, you recommended a 46.5 percent equity component in the capital structure. Correct?
A. Yes.

Q. And the commission rejected that recommendation as too low. Correct?
A. The commission rejected it, yes.
Q. In this case you responded by proposing an even lower equity component of 46.6. Correct?
A. Yes.
Q. Now, since the 2010 general rate case, the commission decided the 2011 Puget general rate case, correct, where capital structure was also litigated?
A. Yes.
Q. And you were a witness in this case. Correct?
A. Yes.
Q. So can you turn to your Cross Exhibit KLE-5CX, please.
A. I have that.
Q. On page 2 of that exhibit you have your cost of recommendations in that case. Do you see that?
A. Yes.
Q. In that case you also proposed a 46 percent equity component. Do you see that?
A. Yes.
Q. The commission also rejected that as too low in that decision. Isn't that correct?
A. Well, the commission did not accept it, so in that sense, yes, it was rejected.

Q. Can you turn to the piece of paper that I handed you before this examination began, which is an excerpt from that order.

For the record, this is order 08 in docket UE-111048.

I've specifically handed you -- it's a two-page exhibit, which has the front page of the order, and then has an excerpt that includes paragraph 56. Do you see that?

A. Yes.

Q. So in that case, didn't the commission find that reducing Puget's actual equity ratio while it was experiencing attrition -- and I have this, it's about midway, toward the end of the paragraph -- the quote is that it could be viewed unfavorably by the financial markets and rating agencies. Do you have that?

A. Yes.

Q. And the commission concluded that -- this is at the end of that paragraph there -- by raising the equity ratio from its current authorized level to the level it expects during the capital year, we improve PSE's opportunity to earn its full authorized return during a period of high capital expenditures.

So what I wanted to ask you about is your analysis of capital structure in this case. And I believe that's on pages 11 to 14 of your testimony.

Now, in reviewing this testimony, I did not see any discussion of PacifiCorp's attrition in your recommendations to reduce PacifiCorp's actual equity component in its capital structure. Is it fair to say that in making your recommendation you did not account for PacifiCorp's attrition in any way?

MR. CEDARBAUM: I'll object as assumes facts not in evidence, at least through this -- well, foundation as to whether or not this witness agrees that the company is experiencing attrition.

JUDGE MOSS: I think that would be appropriate foundation.

BY MS. McDOWELL:

Q. Mr. Elgin, are you aware that PacifiCorp has been under-earning in its Washington jurisdiction for many years?

A. My understanding is that the company has alleged that.

This would have been the appropriate case for the company to put on an attrition analysis, and it did not do so, so I can't say anything other than what the company alleges. And this morning is the first time I've heard connection between the equity ratio and a remedy for the company's -- used the actual equity ratio

as a means to respond to alleged attrition.
If it was indeed attrition that you were experiencing, it's incumbent upon the company to make the requisite showing and for the parties to be able to respond to that evidence.
Q. Do you have Bruce Williams' testimony with you?
A. Yes, I do.
Q. And I will have it in just a minute here, his rebuttal testimony.
There's a section in that testimony beginning on page 2 entitled policy issues. Do you see that?
A. Yes, I have that.
Q. Do you see that beginning on page 3, line 17, Mr. Williams refers to a section of the letter from Governor Gregoire referring to attrition? Do you see that?
A. That's at the bottom of page 3 on line 22?
Q. Yes. The question refers to attrition. Do you see that?
A. Yes, I do see that.
Q. And then do you see Mr. Williams' response indicating that use of a hypothetical capital structure is not consistent with addressing attrition in rate making?
A. Yes. But that still begs the question whether

or not the 52 -- equity ratio of 52 percent is appropriate.

The portrayal and the actual earnings and where the company would be if it were capitalized properly, in my opinion, the returns portrayed by Mr. Griffith in his rebuttal testimony would be higher. So it's a matter again of arithmetic. If you have less -- if you have more equity and you have a certain level of earnings and you apply that to a earned return on equity, it will be lower. It's, again, math.

Q. So just to be clear, those are not issues you considered in proposing the capital structure that you proposed in this case?

A. Yes, I could not consider them. This was his rebuttal testimony. I'm talking about the direct testimony.

Q. So, Mr. Elgin, I wanted to ask you about your proposal to impute Avista's debt cost in this case to PacifiCorp. That's at page 37 of your testimony.

A. Go ahead.

Q. And just so I'm clear on your proposal, you are proposing to use Avista's total cost of debt from its last rate case, and that's, for the record, UE-120436. Is that correct?

A. Yes. I portrayed that in my Exhibit KLE-3. The calculations are there.

Q. You were a witness in that case also, weren't you?

A. That's correct.

Q. So turning to Exhibit KLE-6X. I believe that was your initial rate of return testimony in that case.

A. Yes, I have that.

Q. In that case, on page 3, you recommended a 5.7 percent cost of debt for Avista. Is that correct?

A. Yes.

Q. And then ultimately this case was resolved by a stipulation I believe adopted in, order nine in the case, that adopted a 5.72 percent cost of debt. Does that sound right?

A. I'll accept that, yes.

Q. Your testimony in that case was actually marked as an exhibit for Debra Reynolds, DJR-5CX. I'm not sure if you have that with you.

A. Yes, I do, I think.

MR. CEDARBAUM: Just give me a chance to find that.

THE WITNESS: Yes, I believe I have that.

BY MS. McDOWELL:

Q. You testified in support of that cost of debt. Correct?

A. That's correct.

Q. And just to be clear, in this case while you propose to impute Avista's cost of debt or a cost of debt you say is Avista's cost of debt, you're not proposing to impute the other portions of the commission's order in that case, the adopting a 9.8 ROE or a 7.64 ROR. Correct?

A. No. That was a settlement in that case. There were many factors that we considered.

Q. Your Exhibit KLE-3 is the exhibit from which you derive your 5.343 percent number. Correct?

A. Yes.

Q. Do you have that exhibit?

A. Yes, I do.

Q. That exhibit relies on a 5.6 percent cost of debt for Avista. Do you see that?

A. It's the cost of long-term debt, that's correct.

Q. That number is different from the number that was authorized by this commission. Correct?

A. Well, I wouldn't say authorized.

Yes, it is different than what I'm proposing. This number is different than what is portrayed here for several reasons. But this Avista's cost, actual cost of debt. It's taking their issuances, the interest payments, the underwriting fees paid, and the traditional treatment to calculate their cost of debt.

Q. But you'll acknowledge it does not correspond to the cost of debt that was authorized by the commission in order nine. Correct? That's a higher cost?

A. It was not -- yes.

Q. And then to derive the 5.34 percent number, you'd add short-term debt. Is that correct?

A. Yes.

Q. That's the next line there. And that's where you get the number 5.34 percent?

A. That's right.

Q. So doesn't this adjustment show that even if you use a cost of debt lower than what's in Avista's rates now, and you add short-term debt, the result is a cost of debt that remains higher than PacifiCorp's current long-term cost of debt?

A. Yes. Avista's cost of -- that's exactly why I did this. In Mr. Williams' direct case, he alleged that it was unfair for the staff to recommend a hypothetical capital structure, and then used its embedded cost of short-term -- I mean of long-term debt. So similarly how I -- we use surrogate companies to establish a cost of equity for this company, I felt it was fair to look at a comparable rated A-minus utility and calculate what their cost of debt is, including four percent short-term debt, and use that as a surrogate for this company, so that I was responding to Mr. Williams' testimony in that regard, and trying to be fair.

MS. McDOWELL: That's all I have.

I'd offer KLE-5CX, KLE-6CX and DJR-5CX.

(Exhibits KLE-5CX, KLE-6CX and KLE-7CX were admitted.)

JUDGE MOSS: Any objections?

MR. CEDARBAUM: I'm sorry. No, objections.

I do have just a couple of follow-up questions.

JUDGE MOSS: Okay. Let me do something here for the record. I'm going to renumber DJR-CX as CLE-7CX and I'll accept it into the record on that basis.

MS. McDOWELL: Thank you.

JUDGE MOSS: We'll strike that same exhibit from Ms. Reynolds when we get there, or I can do it now. It's DJR-5CX. Right?

MS. McDOWELL: That's correct.

JUDGE MOSS: We'll strike that.

MS. McDOWELL: That's correct. I think we were thinking in terms of traditional witness order, and not this witness order.

JUDGE MOSS: This will work out all right. So those will be admitted.

Mr. Cedarbaum, you said you have a follow-up here?

MR. CEDARBAUM: Yes, Your Honor. I just wanted to ask Mr. Elgin to turn to page 39 of his testimony.

REDIRECT EXAMINATION

BY MR. CEDARBAUM:

Q. The line nine, you made a record correction to the 52 percent number; from 52.10 to I think it was 52.51.

A. Yes.

Q. Does that change affect either your own recommendation or your response to the company's recommendation?

A. No, it does not.

Q. You also made a distinction between the company's presentation and its direct testimony versus its rebuttal case with respect to the subject of attrition. Do you recall that?

A. Yes.

Q. Can you explain why that's important?

A. Yes, we, as commission staff, we respond to the direct case. So to the extent the company was alleging attrition and proposing remedies, we evaluate first whether or not there is indeed attrition, and then the second thing is what's the appropriate remedy, whether it be end-of-period rate base, some kind of hypothetical equity ratio, or future test periods, or whatever the revenue may be. But, in my mind, the remedy needs to be related to the alleged attrition and the specific response to what's occurring to the company. We did not have any evidence from the company on that point.

MR. CEDARBAUM: Thank you. That's it.

JUDGE MOSS: Okay. Very good. Mr. Elgin, you may as well stay where you are, since we're going to have the panel of the witnesses.

I'm going to ask if counsel here can bring their chairs up since we have four. I'll bring a chair down from up here, and you can either pull up chairs from the gallery there or just sit back there.

I remind the panelists, you all remain under oath, so we don't need to go through that exercise a second time.

This is an opportunity for some interaction between you four and the bench. And we don't have an agreed order here, but Mr. Goltz, would you care to commence?

COMMISSIONER GOLTZ: I'll see if I can ask everything that Commissioner Jones has in mind to ask.

Thank you.

Although we have this format, I think it's useful, it may be that in my questions I'll just be asking individuals, and I won't ask for too much interaction.

So I wanted to ask Mr. Hadaway first, am I correct that over -- looking back, prior to this case, in the last few years that you've been testifying, that you would -- summarizing that, you would say the DCF method would be the primary method of determining return on equity?

DR. HADAWAY: Yes, sir. Up until very recently, that's been the case.

COMMISSIONER GOLTZ: That was the case through your initial testimony. Correct?

DR. HADAWAY: I raised concerns about the model in that initial testimony, but yes, it was still the primary method.

COMMISSIONER GOLTZ: Sometime between then and your rebuttal testimony you would say, no, it's not primary anymore?

DR. HADAWAY: Yes, sir. Starting with June the 19th, and really the period leading up to that, when the Federal Open Market Committee made clear that it was beginning a process of changing its interest rate policy.

COMMISSIONER GOLTZ: So you testify for PacifiCorp in a number of states. Correct?

DR. HADAWAY: Yes.

COMMISSIONER GOLTZ: You testify for other companies in a number of cases?

THE WITNESS: Yes.

COMMISSIONER GOLTZ: Do you have any of those that are ongoing right now?

DR. HADAWAY: Yes, sir.

COMMISSIONER GOLTZ: Are you saying in those other jurisdictions that the DCF should no longer have primacy?

DR. HADAWAY: I'm saying additional weight should be give to interest rate-base models like this premium model. I'm filing rebuttal testimony as we sit here today in Arkansas with that very testimony in it, and I have a case in Texas that I'm preparing that same testimony in.

COMMISSIONER GOLTZ: You attached in your Exhibit SCH-2 quite a list of cases in which you filed testimony on cost of capital going back almost 30 years. Right?

DR. HADAWAY: Yes, sir. I started in 1980.

COMMISSIONER GOLTZ: More than 30 years then.

Has there been any other time in that history, 1982 to present, when DCF hasn't been your primary method?

DR. HADAWAY: I would have to think very carefully about that, but over time we have used different models and emphasized that different weights would be placed on those models, again ranging from -- we've had discussions at this commission, Commissioner Jones and I have, about the capital asset pricing model, for example, and I've used that -- not as a primary method. Typically the DCF model, as it is with this commission, and around the country, is the one that most commissions rely on most heavily.

COMMISSIONER GOLTZ: You're saying now for this case, at this time, we should rely more heavily on the risk premium method?

DR. HADAWAY: Something based on interest rates. Interest rates have gone up over a hundred basis points since April. And if you look at my analysis or if you look at Mr. Gorman's analysis, or anyone else, the DCF model because of the data it's based on simply can't capture that increase in capital costs that is occurring.

COMMISSIONER GOLTZ: I guess I'm asking, though, has there been any other time since 1980 when you would say, yes, in fact the DCF model should not have primacy, or is this just a new thing?

DR. HADAWAY: I've done so many cases, I can't be sure, but I believe when interest rates in the 1980s were as high as they were, there were many models that were giving ROE's above 20 percent, for example, and the DCF was probably one of those, because dividend yields were over ten percent, growth rates were high. And in that environment I don't think I ever recommended higher than about 16 or 17 percent, and that was as a commission staff person.

COMMISSIONER GOLTZ: I have a question for Mr. Williams on capital structures. And I'll ask actually this of all of the capital structure witnesses.

So first for Mr. Williams, are you saying that in all cases, all times, the commission should accept actual capital structure?

MR. WILLIAMS: I think what we're saying is that the actual capital structure, if it produces a reasonable overall rate of return, which I believe ours does, if you look in light of the Avista and the Puget rates of return, and it's necessary to support the ratings, which we believe ours is, and those ratings provide a benefit through a lower cost of debt, that it is reasonable to use the actual, and the actual should be what's used.

COMMISSIONER GOLTZ: But you would agree that sometimes commissions, including this one, approve a capital structure where the approved equity component is greater than the actual equity component?

MR. WILLIAMS: Yes, I'm aware of that in the recent Puget case that was discussed a few minutes ago, where I think you authorized a 48 percent common equity component, when the company had 46 percent during the test period, but with the expectation of it being increased when rates were effective, yes.

COMMISSIONER GOLTZ: But beyond that, wouldn't you agree that sometimes a hypothetical capital structure is approved by a commission, including this one, in order to assist the company financially?

MR. WILLIAMS: Yes. I think there could be situations like that, where a hypothetical capital structure that had more equity than what the company actually had would help it with its ratings or its coverages or some other issue that the commission is concerned and wants to help with.

COMMISSIONER GOLTZ: Mr. Gorman and Mr. Elgin, would you agree with that? That under what circumstances might a hypothetical capital structure actually assist the company potentially?

MR. GORMAN: I think it does, if you use a hypothetical capital structure with more common equity than the actual amount of common equity, then you're providing that company greater cash flows to help restructure its cash flow to meet the targets you lay out for it.

COMMISSIONER GOLTZ: Mr. Elgin, have there been examples in your experience where that's been done by this commission?

MR. ELGIN: Yes. As a general proposition in -- this commission has used hypotheticals for that very purpose, to enhance the financial stabilities of the companies it regulates to put them on more solid financial footing.

The most recent cases were for both Avista, as the financial turmoil it went through as a result of the 2000 western system power crisis, and also for Puget Sound Energy as a result of that crisis, and also as a result of its merger with -- or acquisition of Washington Natural Gas, actually became Puget Sound Energy, it ran into some financial difficulty in the transition.

But the traditional kinds of things the commission has done has accepted hypotheticals to put equity in where there was none.

COMMISSIONER GOLTZ: So, Mr. Williams, I gather you're saying that just so long as the actual capital structure is kind of within some sort of reasonableness, we ought to leave well enough alone? Is that sort of it? You're not saying actually -- all, forever, otherwise we wouldn't be doing the sorts of hypothetical capital structures that Mr. Elgin described.

MR. WILLIAMS: Right. I think you probably need to look at each case by case, but I'm saying our company in this case, the actual capital structure does provide a benefit to the customers.

You know, it has -- it balances both the safety and the economy that I think the commission is looking for. It provides the economy through an overall rate of return, very much in line with Avista and Puget, and those are recent cases I understand, and also provides a safety, and perhaps it provides more safety by a higher rating, a better balance sheet, a stronger company, but there's no additional cost for it. The costs are very much in line with what Avista and Puget have in rates today.

So I don't want to give you a blanket answer that yes, it's always actual. I think you need to look at it on a case-by-case basis, but with the kind of criteria that I laid out; that if it does support the ratings and it provides a benefit to customers to lower debt cost, a competitive overall rate of return, I mean, that seems reasonable to me.

COMMISSIONER GOLTZ: So supporting lower debt costs. So there's a dispute between the company's position and the commission staff's position on the appropriateness of short-term debt in the capital structure.

MR. WILLIAMS: Yes, I think that's a fair assessment of it.

COMMISSIONER GOLTZ: Isn't short-term debt in general cheaper than other forms of capital?

MR. WILLIAMS: I think generally, but let me answer your question that the company, even though it doesn't have short-term debt is capturing the benefit of those low short-term interest rates.

If you look in my cost-of-debt exhibit you'll see about $600 million of variable rate, pollution control revenue bonds, that are reset daily or weekly. Those are very low rates. Those are a rate of about 1.3 percent. That's even lower than the rate that I believe Mr. Elgin has proposed for the cost of short-term debt.

So even though we don't have any short-term debt, the customers are still getting the benefit of that low short-term interest rate through the component of long-term debt.

COMMISSIONER GOLTZ: Isn't short-term debt just a normal means of financing operations for most companies?

MR. WILLIAMS: I think it -- typically it can be. It depends on your cash flows, what your cash needs are.

We've benefitted the last couple of years from bonus depreciation, which has enhanced the cash flows, so we haven't had the need for as much short-term debt. At the same time we've also been fairly aggressive with issuing long-term debt, at what we think are attractive rates, locking in today's rates, you know, for 20 or 30 years, that we think will provide value for customers for that long period of time.

COMMISSIONER GOLTZ: Mr. Gorman, you don't propose short-term debt in this capital structure. And looking at some of the testimony that was put in the record this morning of your testimony in other states, I didn't notice a short-term debt component. Is that a pattern of your recommendations, or is that the case?

MR. GORMAN: Typically it's based on what the company actually does.

There is risk associated with using short-term debt, refinancing risk. Many utilities decide or choose to finance in a more conservative manner to lock in the maturity of their securities while mitigating then the financial risk of having to refinance those securities when they come due. So that's one factor.

I recognize the necessity of what I believe to be a reasonable capital structure. Another factor is the actual type of operations the utility has. As an example, utilities with gas service use short-term debt to manage working capital, because there's a very significant variation in the amount of gas inventory that company may have throughout the year.

Almost all utilities use short-term debt to some extent to finance their construction work in progress, simply because of the timing of writing checks to vendors and equipment manufacturers and environmental -- or engineering procurement contract folks. It makes sense to use short-term debt to build up a larger amount and then refinance it with longer term securities.

But I have not questioned the use of long-term debt because I think it's generally consistent with a conservative utility financing structure. For that reason I have not taken issue with it.

COMMISSIONER GOLTZ: Mr. Elgin, then responding to that, is the short-term debt that you're proposing, it sounds like they're saying that that's a little bit higher up on the risk scale. Do you have a response to that?

MR. ELGIN: No. I would say it's not, not for the amount -- I would say if you were to be proposing somewhere upwards of ten percent, I would say that the higher up on the risk scale would apply.

What I'm suggesting is four percent is a reasonable amount, and in particular, because you consider working capital is a rate-based item, it's quite appropriate to consider how the company manages the working capital of its business, and using short-term debt as part of that cash management, and as well using short-term debt to, as Mr. Gorman described, fund construction and fund its ongoing business needs, and use it as a way to bridge and maximize the timing and the effect of when you would do something more permanent.

So I think four percent is a very small amount, it's a proven amount to use, and that's the foundation for my recommendation in this case.

COMMISSIONER GOLTZ: I have no further questions.

CHAIRMAN DANNER: Thank you.

I have a question. I want to go back to Dr. Hadaway's direct testimony. On page 20, lines 10 through 13, you state -- and this is with regard to risk premium method -- although these more sophisticated methods are widely used in academic costs of capital research, their additional data requirements and their potentially questionable underlying assumptions have detracted from their use in many regulatory jurisdictions. And you say it's however a useful parallel approach to the DCF model.

If you're going to downplay the DCF model, I'd like to know what the questionable underlying assumptions are that you identified in that, and whether they're still -- are they still questionable underlying assumptions if we're going to give more importance to this method.

DR. HADAWAY: Well, my testimony there is really about the capital asset pricing model, the arbitrage pricing theory model. Particularly the so-called APT model has really not gotten used in regulation to my knowledge, other than just a few papers may be written about it, but I've never seen a commission use it. It's because the model assumes a lot of relationships in the market that are essentially untestable. Academicians, particularly many years ago, debated those assumptions and they were trying to produce a better model, but it simply hasn't turned out to be that way.

The capital asset pricing model, on the other hand, is widely used in many Wall Street applications, and up until interest rates have been pushed down by the government's recent monetary policy, many valuation opinions and other things that needed a cost of capital would use the CAPM; however, in the regulatory process your friends in Oregon, who were one of the first commissions to rely heavily on the CAPM -- in my very early academic work I actually wrote a paper that had to do with some of the same things they were doing over there. This goes back to the 1970s.

But over time the whole issue of market efficiency, diversifiable and nondiversifiable risk, have come under some suspicion as necessary to being exactly the way the market is. I'm glad Commissioner Jones is back, because he and I have talked about thee things before.

But the CAPM has extensive assumptions about equal borrowing and lending rates, about certain kinds of risk aversion, things that we don't typically talk about outside of the classroom. It's a fine model, but it requires inputs that are very, very judgmentally based, and different equally expert witnesses produce tremendously different rates of return from that model, so for that reason most commissions don't rely on it.

I have for years and years used a simpler risk premium approach of saying what a utility is granted in the way of risk premiums, utilities have been granted by

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regulatory commissions, and if we look at today's interest rates and add those to the adjusted risk premium that's consistent with the level of interest rates, I think that's a more direct, it doesn't have all the assumptions that the CAPM or certainly the APT models have, and it's one that people can understand.

CHAIRMAN DANNER: When you talk about it, you're talking about this in combination with DCF then?

DR. HADAWAY: Not under present conditions. When I look at the results in this case, and also in those other cases that I mentioned earlier, and we see that DCF results are going down at the very time when interest rates are raising rapidly and projected to rise further, and then I believe that has to be an indication at least under present market conditions that the DCF model is simply not accurate.

The inputs to it -- it's going to take a while, but if interest rates continue to rise -- Mr. Gorman and I can debate this -- but utility stocks have been relatively flat recently, and they've also gone down. Many of the so-called dividend payers have fallen out of favor really in the last month to six months.

There was a period in May when it started to happen, when people anticipated the Fed's move, and it sort of improved. Chairman Bernanke tried to sort of smooth the markets over and utilities recovered a bit, and now in just the last few weeks they've come down very hard again as interest rates have started rising again.

CHAIRMAN DANNER: If we're giving less importance to DCF, we're going to rely on these others, in your direct testimony you basically identify two methods, APT and CAPM, and said that they have some questionable underlying assumptions hereto. You then talk about you have a more simple method, but it seems to be relying on a spot price. So if we're worried about underlying assumptions, it seems that we've got -- we're taking a snapshot that's very narrow. That worries me a little bit. I hope you can ease -- calm my nerves a little bit on this.

DR. HADAWAY: I don't want blame you for being concerned about the word "spot." That always troubles people. I would not encourage you to use just the spot interest rate.

I provided three different interest rates in my risk premium analysis. One is what I traditionally do, I use the most recent three months. And I think this same thing Mike Gorman has done in some of his analysis. I used a forecasted interest rate that's based on the so-called Bloomberg forward curve, what's going to happen sort of through 2014. And then I did demonstrate what a spot interest rate will give you if you just looked at that. But that's not the top of the range, it's not the ten percent that I'm recommending. It's the forecasted interest rate that gets the ten percent.

So I guess what I'm saying, that the other models, the DCF model simply cannot move quickly enough to capture what's going on. So I would encourage you to use additional judgment about where interest rates are and about where market publications are telling you that interest rates are headed to decide what rate of return you should use.

CHAIRMAN DANNER: Okay. Thank you.

Mr. Gorman or Mr. Elgin, do you want to give me your thoughts on this?

MR. ELGIN: Yes, sir. I'd be glad to.

I'm not an advocate of risk premium methodologies. In particular, as I state in my testimony, they tend to be -- rely too heavily on what commissions decide, so you might as well just look at RRA results and get a ballpark and there you are.

I still would recommend DCF, because the underlying theory of DCF is the price that investors in actively traded, competitive markets are bidding for ownership of these equities.

In particular, if you look at my study, I did my study just within two months after the company filed, so I believed it was good to have kind of contemporaneous DCF results with the company -- with Dr. Hadaway.

And then in my testimony I provided you some evidence about what's happening with the recent kind of slide of interest rates. And if you look at today's prices, today's prices, there's been some rebound, but the dividend yield of the comparable group, whether it's my comparable group or Dr. Hadaway's, there has been a rebound, but it's not any -- it's not as high as what we calculated in our initial study.

So again I'm an advocate of DCF because it relies on stock prices. And the other reason why stock prices are so important is equity costs -- it's the bedrock of the business. It's bedrock funds that support the investment in the utility. And those equity costs change slowly over time, and how they change over time is again reflected in the price investors are willing to pay for common equities.

So I think there's way too much quibbling about, well, interest rates went this way and interest rates went down and up and what do you actually use for -- in a risk premium study. Look at equity prices, look at how the market is reacting in relationship to what's happening in long-term interest rates, and then make a judgment. But if you look at today's dividend yields, they're still lower than when Dr. Hadaway and I filed our initial testimony.

CHAIRMAN DANNER: Are there trends that you see that you can project out?

MR. ELGIN: Yes. The biggest trend I see right now is much more volatility. In the last four to five years, particularly interest rates, and to a lesser extent in equities, the market reacts and overreacts to news events, and it reacts to those news events more than one time. I don't know how many times in the past three years we saw the impact on interest rates and equity markets of the European debt crisis. It was solved, it wasn't solved, and we went through this roller coaster.

I see a little bit of that roll coaster today with respect to federal funds, policy, and the quantitative easing, but as a general proposition, a lot of volatility in the market, but I do think that interest rates were artificially low, I think we're going to see some gradual recovery, a hundred basis point rise on ten-year notes.

I think it's going back to more normal -- you're going to see a much more normal yield curve, and I think what it's going to do also is stabilize the capital market line so you're going to have a more rational kind of capital market line going into the future. So that's kind of the thing I would see. Volatility in interest rates, but more return to kind of a more normal level as we come out of this recovery from the financial crisis of 2008.

CHAIRMAN DANNER: Thank.

Mr. Gorman, do you want to speak to these issues?

MR. GORMAN: I do. I am an advocate for considering as much information, relevant information, as is available to make an informed decision on what the current market cost of equity is. I don't know if at any given time one model is more effective or accurate than another model, but I do know that over time I find one result to be more convincing than the results of another model.

Right now I think the DCF model is giving reasonable results based on the parameters of that model. As shown in my schedule, the dividend payout ratio for utilities in the proxy group are around 60 percent. That's a pretty fundamental support for the dividend paying capacity of the companies in the proxy group. Essentially they only have to pay out about 60 cents on the dollar of earnings to support their dividend.

The information in my schedules show that the cost of the dividend, you know, the dividend per share divided by the book value per share is about six percent. So if the utility is earning nine to ten percent, the cost of the dividend is about six percent, they can retain 30 or 40 percent of their earnings, consistent with that target payout ratio, pay their dividends, reinvest earnings, grow their company.

The yield I think on the DCF model does reflect current interest rate environments. The significance, though, of rising interest rates, because of the Federal Government's coming out of that market, less government intervention in the long-term interest rate markets, I think might have an impact on utility yields going forward, but we haven't seen that yet.

Utility stock prices have been very stable. Yield components of utility stocks has not increased with the yield component of utility bonds. So what does that mean? Well, it means utility stocks may be valued the way they are because the market has an appetite for low risk stable investments, like utility companies. So when the government backs out of long-term debt markets, is there any guarantee or any certainty that long-term interest rates will increase? There's no certainty, but there's a probability it will.

The next question is what does that mean in terms of utility stock price valuation, and again, we don't know, but what we've seen so far is utility bond values have been dropping, utility stock prices have been relatively stable.

So how do you use that to measure a current cost of equity? Well, you continue to use as much information as is available. The market risk premium or the bond yield risk premium study would suggest an increasing return on equity. But the DCF model that has -- this is driven by investors' decisions to buy and sell utility stock, suggests that the cost of capital is relatively stable and low for utility companies.

So there's conflicting information from the market right now in attempting to measure accurately what the utilities' cost of equity is. I don't think it's reasonable to disregard the DCF model, because it's staying low, because market literature supports the notion that utilities are perceived by the marketplace as stable, low risk investments, and that's what the market is looking for right now, which contrasts, however, with the risk premium model, which tracks utility and treasury bond yields that are increasing right now.

Whether they're continue to increase, nobody really knows. There's perceptions that they will. But they've increased quite a bit in the last three months. They may continue to increase, they may not. They may stay at current levels until inflation becomes the driving force in the marketplace for what interest rates -- nominal interest rates should be, or there's a fundamental shift in the risk of the debt investment. But all of that is just speculation based on what might happen in the future.

What we can see in the market today is the return on equity estimates which are based on our DCF model and our risk premium studies. I think they're all pretty meaningful information to measure utilities' cost of equity.

CHAIRMAN DANNER: Dr. Hadaway, do you want an opportunity to respond to that, and Mr. Williams, of course, chime in at any time.

DR. HADAWAY: We can all look at the newspapers, and I would say just take a look at your favorite utility stocks and see what their high price was for the year, what the low price was for the year, and where they're trading right now. And they're closer to the low price.

As we go forward, you'll see that if interest rates do move on up -- again, I don't disagree with Mr. Gorman. We don't know for sure what's going to happen with utility stock prices. If we did, we wouldn't all be here.

But at the same time, the pressure has been to push down utility stocks, and it's continuing, and if interest rates do, in fact, move on up, if it's the September taper -- or September taper as they're calling it, does in fact occur, then you'll see utility stocks pushed down, you will see dividend yields move up, and the DCF model will come back into favor.

But that hasn't happened, because we have to look back, we use three months of historical data, and my risk premium analysis value line puts out new additions three times every quarter, and so we use stock prices that match those additions. So it's just a little bit backward looking is all I'm saying to you.

I'm not saying the model is necessarily broken, or that, you know, a year from now we're going to reject the DCF model, but right now, just as we have filed this case two days after the Fed's announcement, the other parties filed their testimony in this case, and it's a critical point not to use those low, low estimates. They're coming out of data that is rapidly being replaced.

CHAIRMAN DANNER: Thank you.

I want to just touch briefly on the proxy group. I don't want to have a big discussion about it.

I note that there's some difference about which companies should be in, which companies should be out.

I'm interested, Mr. Gorman, you only rejected one of the companies, Mr. Elgin rejected five of the companies. What were your views on the four companies that he rejected but you did not? Were they comparable in your mind?

MR. GORMAN: The group as a whole I thought was reasonably comparable; that is Dr. Hadaway's group was reasonable comparable. I had one issue with Tampa Electric.

Typically a company that is in the middle of a merger or an acquisition, the observable market price is -- may be impacted by that merger or acquisition and therefore may not reflect the long-term valuation of that company on the stand-alone basis, so it can skew the results, so normally you pull that out of the proxy group.

I thought it would be appropriate to remove Tampa Electric look from this group. Dr. Hadaway disagreed with that. I think it's reasonable to do that. Fitch has actually put Tampa Electric on credit watch because of the proposed acquisition of Mexico Gas Company. So I think there is real market evidence that the market is watching what happens to this company based on that proposed transaction.

But aside from that single company, and based on that very clear criteria for including or excluding a company in a proxy group, I didn't take issue with the other companies in the proxy group identified by Dr. Hadaway.

CHAIRMAN DANNER: So factors like the amounts of regulated activity versus unregulated or inclusion of risk was not something that bothered you?

MR. GORMAN: It would concern me if there was a significant amount of nonregulated businesses, but I didn't see that to be a criteria for any of the companies to the extent that it justified removing the company from the proxy group.

A nuclear unit is a generating facility. The nuclear risk that we saw back in the '80s I think is mitigated more recently; not because of the risk of nuclear meltdown, but the fact that a nuclear generating facility typically is an 80 to a 90 percent of invested capital of the utility anymore. So the financial and operating risk of the nuclear unit today was not like is not like it was 20 years ago.

There's still clear problems for risk associated with operating a nuclear unit, that it's public health and public safety issues, which there are mutual cooperative insurance proceeds that all the nuclear companies cooperate in the Price-Anderson Act that will help financially protect a company from liability in the event of a major catastrophe at nuclear station. So I don't see that as so much of a risk issue today that stands out amongst other risk, real risk that utilities have to manage in operating their companies.

CHAIRMAN DANNER: Thank you.

Of course I'll let any others respond if they choose to.

DR. HADAWAY: The issue on Tampa Electric is a minor, minor one. In my three models, one of them goes up if you take it out, two of them go down. It doesn't have a material effect. Mike and I just disagreed.

My thought on not changing my group was size. Tampa Electric is about a $7 billion asset company and Mexico Gas is a less than a billion, 900 million, something like that.

Going forward, the most recent Value Line that just came out last week says that this is a significant transaction, and they discussed it, and going forward we will probably take it out of the group, but it will not affect the outcome.

MR. ELGIN: Again, my point is it's not the size of the group. I try to put together what I feel is a proper group.

What it really boils down to is in this case what you use as -- for the estimate of growth in the DCF methodology. And Mr. Gorman and I both believe if you lend weight to GDP as an element of assessing long-term growth prospects of utilities it should be near-term data and projections, not historical data as Dr. Hadaway used. And so that's what drives the DCF result, and a growth rate of about four and a half percent, at the outward, five percent, as Dr. Hadaway -- in the upper fives as Dr. Hadaway has, just clearly drives the result of his DCF methodology. And so that's what makes the difference, not the size of the group.

CHAIRMAN DANNER: All right. Thank you. Let me see if I have any other questions.

I don't have anything. Thank you.

JUDGE MOSS: Commissioner Jones?

COMMISSIONER JONES: Good afternoon.

This is being very temperamental. Can I use yours?

CHAIRMAN DANNER: You sure can.

COMMISSIONER JONES: Okay. Good to see everybody again.

Dr. Hadaway, how's Austin, Texas?

DR. HADAWAY: It's much warmer than here.

COMMISSIONER JONES: I'm going to start with a question on zone of reasonableness. As you know, you've read our orders, and you each use DCF, CAPM and risk premium, and you have a high and a low. And so I'd like to go to each of you, maybe starting with Mr. Gorman, and give me based on most recent rebuttal testimony, and you re-ran some numbers, Dr. Hadaway, again.

But just give us your best sense of what a zone of reasonableness would be for the ROE -- it could be in a range of 50 basis points, 80 basis points, a hundred basis points -- using all three methodologies.

MR. GORMAN: I've tried to do it at page 39 of my testimony. There I summarize the results of the three studies. At the time I completed my analysis, June of this year, I found a zone of reasonableness to be relatively narrow, about 9.1 to 9.25 percent. That does include the risk premium study, which reflected bond yields, which were much lower more than current bond yields.

If I updated that analysis I would use the current three-month bond yield in that study. I have updated my DCF studies for other cases I'm filing testimony in, and the bond yields in DCF results are not changing much. They're relatively stable.

COMMISSIONER JONES: They're not?

MR. GORMAN: They're not.

COMMISSIONER JONES: So the upper end could go up a little bit, but not a lot?

MR. GORMAN: Yes. The upper end might stretch to 9.6 to 9.7, the lower end would stay around 9, 9.1.

COMMISSIONER JONES: Mr. Hadaway, I refer to your direct testimony. On page 30 you summarize all your result of everything, but you did not put -- I'm shocked that you did not put CAPM in that table. I think your CAPM analysis produced a low of 7.55 percent. Correct?

DR. HADAWAY: Yes, sir.

COMMISSIONER JONES: If you included CAPM, it would be 7.55 to 10.0, but at least in your table there, as I look at it, your low is -- current utility debt plus equity risk premium is 9.3 percent. But on your rebuttal, you re-ran your DCF, of course, and came up with a range of 9.0 to 9.6.

DR. HADAWAY: Yes, sir, that's right.

COMMISSIONER JONES: So what would be a reasonable zone today?

DR. HADAWAY: I would encourage the commission, as I said previously, to discount the DCF severely right now. While we're going through this transition period, the data simply haven't caught up, and stock prices, dividend yields, with where they may go. And what the model is telling us is simply not consistent with the direction that all other capital market prices are going.

So my encouragement to you is consider the risk premium model as a stand-alone look right now. That model, if updated further, would say about 9.8 to 10.2, because interest rates, forecasted interest rates, have moved up even since I did the rebuttal.

COMMISSIONER JONES: Excuse me. What's the basis of the 10.2?

DR. HADAWAY: The 10.2 is the 4.2 percent Bloomberg forward curve for 2014, for the 30-year treasury bond, plus approximately 106 basis points, which was the spread for the most recent three months, between single A and 30-year treasury rates. We put that into the risk premium model, and that's the number that comes out.

COMMISSIONER JONES: But in your rebuttal testimony -- I think it's SCH-16 is your exhibit.

DR. HADAWAY: Yes, it is.

COMMISSIONER JONES: As you said to Commissioner Danner, you just ran three risk premium models, very cursorily, I think. One was the Bloomberg curve projected interest rates of three-month average, and current spot interest rates.

DR. HADAWAY: Yes, sir, that's right.

COMMISSIONER JONES: So if we put more weight on a risk premium approach, is this the evidence that you refer us to when we make our decision using a risk premium?

DR. HADAWAY: That would be the starting point, but I would certainly encourage you to take the additional evidence that exists today, that interest rates have moved up even further. The interest rate, as I said this morning, was 4.87 percent for single A utilities this past Thursday. That's the highest it's been in over two years. So those things continue to mount up.

COMMISSIONER JONES: So why should we -- I think you talked with Commissioner Goltz or Commissioner Danner about this, about spot interest rates. I know you don't like the term, but you put it in your exhibit so I'm going to use it.

It seems to me a lot of the analysis, whether it be DCF, CAPM, is based on either historical data of the long-range nature, and you in your own GDP growth forecast, using the St. Louis Bank reserve data -- you go back how many years?

DR. HADAWAY: Sixty years.

COMMISSIONER JONES: Sixty years. So, you know, I take that into account when we look at all these analyses.

But why should we put so much weight on spot interest rates? I mean, Chairman Bernanke could change tomorrow. We could have Janet Yellen come in or something could happen in the world economic markets and we could have deflation instead of inflation.

My point is why are you urging us to look at spot interest rates, very short-term nature?

DR. HADAWAY: I don't know if a panel discussion like this allows for handouts, but if you would like --

JUDGE MOSS: You anticipated the question? Sure. We can have a handout. We'll consider any objections to it being admitted as an exhibit.

COMMISSIONER JONES: Dr. Hadaway, this even has Dr. Bernanke's photograph on it. Very apropos.

CHAIRMAN DANNER: It also says we have to prepare for the next collapse.

JUDGE MOSS: What a grim expression he has.

DR. HADAWAY: Mr. Gorman said this morning you can take interest rates for what they are, because they are what they are. And this is what the treasury bond interest rate has looked like, and that you can add a hundred basis points to this and it tells you what the single A -- approximately what the single A interest rate has done.

COMMISSIONER JONES: Mr. Gorman, in your risk premium analysis, I think in your testimony you used for a 30-year treasury, you used a 3.70. Correct?

MR. GORMAN: Yes.

COMMISSIONER JONES: If you were to rerun your analysis today, would you use 3.79 or would you use a three-month average, a two-month average? How would you account for these recent short-term increases in the long-term treasury?

MR. GORMAN: Well, if I updated my analysis using the most recent information available, then that portion of my risk premium study, the treasury bond, would be based on blue chip financial forecasted treasury bond yield.

Dr. Hadaway said it was up to 4.2 percent in the most recent publication. I need to verify that. If that's right, that's what I would have used.

COMMISSIONER JONES: Okay.

MR. GORMAN: However, I would have used the most recent observable actual utility bond yields in that same study, but applied to utility bond yields instead of forecasted bond yields.

The reason I'd used both current observable and forecasted yields in that risk premium is because of the uncertainty of what interest rates will be when the rates are in effect. It may be that interest rates will not change from current observable levels, maybe they'll go down, maybe they'll go up, but we just don't know.

COMMISSIONER JONES: Okay.

MR. GORMAN: If you look at blue chip financial forecasts, forecasts for a change in interest rates are almost always for an increase in interest rates. If you compare their forecast to the actual interest rate that prevailed at the time of the forecast, you'll see that blue chip economists almost have always consistently overestimated what the actual interest rates will be.

COMMISSIONER JONES: No, I'm aware of that. I think you have submitted an exhibit to your testimony to that effect criticizing Dr. Hadaway's use of forecasted interest rates, because your point is, right, they're always wrong, or they're always overinflated? Correct?

MR. GORMAN: They're far more frequently wrong by overstating what the actual interest rate is than they are understating.

COMMISSIONER JONES: Let's talk a little bit on risk premium analysis a little bit more, because I think, Dr. Hadaway, you did not abandon DCF analysis on rebuttal, but you gave it significantly lower weight. And so I'd like to explore the underpinnings of risk premium analysis, because I think when we make our decision, we may have to give more weight to it going forward.

One of the criticisms of risk premium analysis is it relies on commission-authorized ROE's, and here we are sitting on the bench listening to you as witnesses propound your theories on cost of capital. So some experts have criticized it for having circular reasoning. It's not as objective as it could be based on data.

What's your response to that, Mr. Gorman, Mr. Hadaway?

MR. GORMAN: That the DCF -- the underlying theory that the DCF model is circular?

COMMISSIONER JONES: No. A risk premium model.

MR. GORMAN: Well --

COMMISSIONER JONES: Because it relies on commission-authorized ROE's as the reference point to use.

MR. GORMAN: There is some limited value in using that model by itself. You know, the difficulty in a risk premium model is by -- to measure the equity as premium you have to start with the investor-required return and subtract from that the observable utility bond yield, or observable treasury bond yield.

The current investor-required return is the most -- one of the more controversial issues in a rate case. Dr. Hadaway and I I don't think have ever agreed on what the current investor-required return is.

COMMISSIONER JONES: Never?

MR. GORMAN: I can't remember us ever agreeing, but we've come close a few times.

If you are going to have a balanced methodology, there needs to be a determination of what the investor-required return is from a party that has an impartial outlook on what the current investor-required return is. The best proxy for that impartial individual are the regulators who listen to presentations and evidence offered by myself and Dr. Hadaway and others in rate cases around the country.

If you can accept the regulatory commission finding on a fair return on equity as being an impartial, binding on what the current market cost of equity is, then you can use that data to measure an equity risk premium.

COMMISSIONER JONES: Dr. Hadaway, your response to that?

DR. HADAWAY: There are a couple. Just a slight point on the business about blue chip forecast. I don't disagree. I've seen Mr. Gorman's analysis in a number of cases. But partly because of that we don't use blue chip. Ours is based on a trading-devised Bloomberg curve, it's based on futures trading of actual investors, not on people forecasting but on what actual trading in bond futures is doing right now. So it's not quite like the blue chip forecast. That's where the 4.2 comes from.

Now, secondly, I fully appreciate the difficulty of one commission accepting another commission's returns and simply saying that's all we have to look at. On the other hand, investor expectations are what we're trying to get a handle on. And if we look -- I don't know how to say this entirely tactfully.

If we look at your decision in the 2010 case for this company where you reach 9.8 percent, that was a full 60 basis points lower than integrated electric utilities around the country were receiving at that time. That was the average for 2010 around the country was 10.38 percent. That's on I believe page 8 of my rebuttal testimony.

For 2011, which you all decided that case in March, but going all the way through 2011, the average number was 11 -- was 10.24 percent. Now, the average number for the first six months of 2013 has been 9.84 percent for integrated electrics. That drop came based on the data that was collected at the end of 2012 and so forth and the end of 2013.

So you certainly haven't done anything circular at this commission by considering what investors expect regulatory commissions to provide to utilities. And so I think Mike and I actually agree on that.

We disagree on how to apply the risk premium, but there are many, many other factors, but when you take all the cases, and we take into consideration that the average utility bond rating is about single A minus now, all those things point to that being a pretty good proxy for what investors should expect utilities to be allowed in these processes.

COMMISSIONER JONES: Much of the disagreement between the two of you, Mr. Gorman and Dr. Hadaway, is using a risk premium analysis, is this criticism of the inverse relationship between interest rates and equity returns. Right?

MR. GORMAN: Yes.

COMMISSIONER JONES: You spent some time in your rebuttal criticizing his methodology, and I think he responded as well. So without getting too complicated and too much into the academic literature, kind of summarize again for us why this simply inverse relationship between interest rates and the equity risk premium is not appropriate today.

And the same for you.

DR. HADAWAY: Okay.

MR. GORMAN: That's not the only factor that helps describe the difference in investment risk between an equity security and a debt security. The difference in required cost of capital will reflect the market's assessment of the investment risk of the underlying securities. Relative interest rates is one factor. There are many other factors that help describe that risk. But there are other factors which don't describe risk that can help explain changes in interest rates, which may not change equity risk premiums.

As an example, a nominal interest rate will include an inflation component and a real return component. As inflation drops, the nominal yield on that security will also drop. A required return on equity includes an inflation component and a nominal component, the real risk component. As inflation drops, the required return on the equity investment will drop.

To the extent nothing else changes, it is conceivable, and likely, if nothing else changes, that the relative difference in equity risk premiums will not be impacted if the required return on a bond investment and the required return on an equity investment is impacted by nothing other than a change in inflation outlooks.

The simple inverse relationship methodology ignores other market factors which can help explain where the equity risk premium is in any given marketplace, even if there is a change in interest rates.

COMMISSIONER JONES: Dr. Hadaway?

DR. HADAWAY: If I may, I would point you to two tables that I have in Exhibit SCH-1T, my direct testimony on page 28, and then sort of a graph version of that in my rebuttal.

COMMISSIONER JONES: Okay. Page 28?

DR. HADAWAY: Yes, sir. Page 28.

COMMISSIONER JONES: All right.

DR. HADAWAY: If we could, if you don't mind having your thumb stuck maybe in two places, on page 20 of 10-T, my rebuttal testimony, page 20, there is a graphical representation just based on the data that Mr. Gorman used.

COMMISSIONER JONES: I got it.

DR. HADAWAY: In other words, it's a shorter time period.

In the direct testimony on page 28, the average allowed risk premium for the period 1980 to 1986, when interest rates were very high, was 1.69 percent. As we've gone forward, you see it's steadily grown.

And I don't disagree. There are many things that can change people's outlook on risk. But the one thing that has consistently changed and allowed rates of return has been the size of this interest rate relationship.

You know, some people would say, well, it's statistical analysis that you do in your risk premium on the last page, maybe it's not valid or something, maybe it has to do with that early time period when those very high interest rates were in there. So what we've done in rebuttal testimony, on page 20 of the rebuttal testimony, is simply take the period from 1986 forward, which is the period that Mr. Gorman uses in some of his analysis, and the lighter shaded bars are the risk premiums, and they steadily grow as interest rates come down.

So whether the exact coefficient is minus .43, or whatever comes out of a regression analysis, or whether it's simply a commonsense effect that the cost of equity doesn't move in lockstep with interest rates, the things I've been describing for you in terms of the increased interest rates, I haven't said that the cost of equity has gone up 120 basis points, I'm saying that since I did my direct testimony, maybe it's gone up 50 or 60 basis points.

COMMISSIONER JONES: Okay. So there's just kind of a fundamental disagreement between the two of you on that. And I think we have limited time here, so I'm just --

DR. HADAWAY: Sorry about that.

COMMISSIONER JONES: I'm going to leave it at that.

My last question is for Mr. Williams and Mr. Gorman, a little back and forth on this.

Mr. Williams, you had a chance to look at Mr. Gorman's testimony when he did the cash flow metrics in his testimony. Correct?

MR. WILLIAMS: Correct.

COMMISSIONER JONES: I think you state, I don't have it in front of me now, but you basically seem to be alleging that if we adopt his recommendation of a 49.1 cap structure from 9.2 ROE, I think your words were it's more than likely that there will be a one notch or a two notch downgrade in the rating, either the corporate credit rating or the bond rating of the company. Is that your testimony?

MR. WILLIAMS: I believe I was citing Mr. Gorman's analysis and the results of his analysis, where he stated that the metrics that came out would be sufficient to support an A-minus rating.

COMMISSIONER JONES: Right.

MR. WILLIAMS: I think we talked about that earlier, that's not consistent with the company's secured bond ratings. We had some back and forth I think between the secured and unsecured.

I guess my criticism of his model is that it doesn't really reflect the reality of the company, and all the adjustments the ratings agencies make, all the interest expense that comes through from things other than securities or debts, and the other adjustments as well. So I'm not sure you could take Mr. Gorman's model just on its face value.

COMMISSIONER JONES: But what specifically is your concern? Is this a real risk you think? We are seven percent of your total revenue in the state of Washington.

MR. WILLIAMS: Right. I think if the company was actually capitalized at a 49 percent level consistent with the recommendation, there's no doubt in my mind we'd be downgraded. The only question is how far. I think we avoid being downgraded because we carried the 51, 52 percent common equity level.

So you're right, Washington is seven percent of the total company, but every state matters, and every other state has adopted the actual capital structure. I think Mr. Gorman confirmed that earlier this morning as well, that Washington is the only state on a hypothetical structure, everybody else is on an actual.

COMMISSIONER JONES: Correct.

MR. WILLIAMS: Everyone else is at the 51.2. So to the extent the company was actually capitalized at that level, there's no doubt in my mind that we'd be downgraded, debt costs would be higher, we'd probably be arguing how much higher they'd be, but we'd have that discussion.

So I think to the extent that we actually did finance consistent with the order of -- capital structure you ordered two cases ago, yes, the company would be down graded.

COMMISSIONER JONES: But you did not provide any testimony in your rebuttal on either FFO -- funds from operation -- to total debt, or EBITDA to debt, you just make this broad assertion that it's going to be likely to be downgraded.

MR. WILLIAMS: Right.

COMMISSIONER JONES: Just let me finish. Are you taking specific issues with his calculations at 9.2 and 49.1? Or is it more an assertion that you just think it's more than likely you'll be downgraded?

MR. WILLIAMS: I think if you go read the ratings agencies' reports that are in my exhibits, you'll see that they're very clear. The company's recent results have been just adequate to maintain the ratings, and just adequate includes, you know, the actual capital structure, the actual results of operations.

So anything that would weaken those results, such as a lower equity component, a lower ROE, will undoubtedly weaken the financial metrics and push us below their expectation. Whether you take my word for it or not, I would encourage you to read the rating agencies' reports and you'll see it's very clear our results are just meeting their expectations.

COMMISSIONER JONES: I have read those, and I think S & P said something like with your heavy cap X program at 1.5 billion a year, and the building out of Gateway West and other transmission generation, that it could, you know, take more cash away from the operation.

And I think one of the metrics has S & P cited was, what was it, FFO to total debt, or funds from operation to debt. That could go below 20 percent.

MR. WILLIAMS: Right.

COMMISSIONER JONES: So I think, yes, I have read those, and I think that is a factor we should consider.

Mr. Gorman, what is your response? Do you still stand by your numbers that you did in your testimony on cash flow metrics, EBITDA, total debt?

MR. GORMAN: I do stand by them as a basis of measuring those cash flow metrics as they relate to the regulated retail costs of service in this jurisdiction.

I think Mr. Williams and I have actually had the same argument in many different cases about whether or not I'm constructing these ratios to duplicate what S & P does on a total company basis. I've tried to make it clear that that's not what I'm trying to do.

What I'm trying to do is measure the cash flow strength of the regulated cost of service in the jurisdiction. And there is a distinction. S & P doesn't care about customers, they care about bondholders. They're looking at credit metrics to help gauge the investment risk to bondholders in PacifiCorp and other utility securities. Conversely, in a regulatory proceeding, you're looking at just and reasonable rates. So from that standpoint, it is -- it's a question of what are the off balance sheet obligations for PacifiCorp, how are they considered in the rate making calculus, and with the standards established by the regulatory commissions which balance investor and shareholder -- investor and rate payor interest, how are they treated in that rate making mechanism?

You know, a big difference in the level of off balance sheet debt I recognize and that which S & P considers is pension expense and post retirement employee benefits. That's a rate making issue. And many regulatory commissions will consider whether or not pension expense and pension obligations should be considered on a current FASB requirement, a cash flow requirement, or they're not prepayments and other types of pension assets or liabilities on a regulatory asset basis should be considered in their cost of service.

If I ignored all those rate making treatments of those significant cost-of-service items, I would be undermining what the regulatory commissions have fashioned in order to balance the interest of investors and rate payors.

So the only way to provide a fair assessment of the cash flow strengths of the retail operations is to accept what the regulatory commission finds to be appropriate rate making practices for pensions and OPEC, but also look at the off balance sheet obligations the utility has for other elements which are used to provide service to customers, such as purchase power agreements and operating leases and those sorts of major financial commitments.

The capital leases typically are reflected in the rate making calculus also. I believe my methodology, while not being a duplicate of Standard & Poor's, is an accurate assessment of the financial strength of the rate making procedures in that jurisdiction to provide fair compensation and to maintain the financial integrity of the utility.

COMMISSIONER JONES: That's it.

JUDGE MOSS: Okay.

COMMISSIONER JONES: Thank you very much.

JUDGE MOSS: We've been at this a good long time.

COMMISSIONER GOLTZ: I apologize. Can I ask one follow-up question?

JUDGE MOSS: Sure, sure.

COMMISSIONER GOLTZ: Commissioner Jones asked kind of for updates from everybody. Mr. Gorman, as I recall you said that, oh, instead of your range from -- if you were to redo your range it was 9.1 to 9.25, but now given bond yields are raising, it might go to 9.6 or 9.7; Dr. Hadaway said now the DCF would have been a 9.8 to 10.2.

So I have two questions. First one, just for Mr. Elgin, and the rest for the group, first one for Mr. Elgin, do you have any sort of on-the-fly adjustments to your range?

And the question for the group is are those really relevant. We just went through -- you all went through some very detailed analyses of what the cost of -- what the ROE should be, and we're getting these kind of off-the-cuff updates. Not off the cuff, they're thoughtful and everything. But should we really be adhering or listening to those, giving those immediate updates much weight, given that Mr. Elgin said, you know, that the return on equities, investor expectations aren't erratic like that, they're more for the long term?

So first, Mr. Elgin, do you have any sort of updates to yours? And second, for the group, what weight should we give these last minute updates?

MR. ELGIN: My recommendation is to give little weight to them. As I said, I have done some research with respect to this recent volatility, and the upper end of the -- let's talk about the universe of electric and combination gas companies. So Value Line is indicating that a dividend yield in the industry is around four percent. So my range in my DCF analysis was 4 to 4.25. Given all the volatility that we've had, my numbers, given today's market information about investor equity stocks, is still good data.

It really gets down to some judgment about what's a reasonable level of growth for these companies. And if you look at retention ratios, which I agree with Mr. Gorman, he's saying the industry average retention ratio is about 40 percent, and if you take some kind of return on book, and I know I was criticized for it being circular, but all this analyses, whether it's using the earnings analyst estimates or risk premiums, you have to begin with some kind of fundamental estimate of what's a reasonable return that investors can expect.

So if you have a 40 percent retention ratio, and let's just say that the utilities haven't -- can earn 12 percent on book. 12 percent times the 40 percent retention ratio indicates a growth rate of about four and a half to five percent; maybe in the -- it may be in the upper fours, 4.8. So the math is 12 times .4 is 4.8. So you add to that a dividend yield of four, and you're at the upper eights.

And given the fact that there is -- I agree with Dr. Hadaway, we don't know what interest rates are going to do, but there's some risk, and there's some pressure, and nobody knows what's going to happen when QE2 unwinds, and QE -- excuse me, not QE2, the quantitative easing unwinds. So I would say -- if I had to update, I would say 25 basis points at most would be a conservative. So a range of 8.75 to 9.25, given the potential for some uncertainties, I think a number in there would be appropriate.

COMMISSIONER GOLTZ: Comments from the rest of you on sort of the relevancy of these last minute updates?

DR. HADAWAY: If I may. I may not have heard correctly, but when you were describing our updates, you may have attributed 9.8 to 10.2 to my DCF?

COMMISSIONER GOLTZ: Yes.

DR. HADAWAY: It would be my risk premium update.

COMMISSIONER GOLTZ: Okay.

No other comments on the relevancy of those? You're good with your updates then, both of you?

DR. HADAWAY: I know that you have the opportunity to follow interest rates, and I know that technically decisions are not supposed to be made outside the record; however, I've been doing this for a long time, and we all know if interest rates are going on up, the cost of capital is moving up, not down.

MR. GORMAN: I think determining a fair rate of return is consistent with giving PacifiCorp the same opportunities all other investors have. And any investors that are in this market and they want to make a long-term investment, they take the market interest rates that's on the table right now. If they want to argue to a bank for a higher CD rate or a bondholder for a higher interest rate, they can't say that we think interest rates are going to be higher later so you should pay us a higher interest rate right now. It's based on what we know right now.

What we know right now is utility cost of capital is lower now than it's been any time in the last 30 years. It's a very low cost capital market for utility companies. It's fair treatment.

COMMISSIONER JONES: I can't resist with Dr. Hadaway. I can't let you get away with 9.8 to 10.2 percent on risk premium. Does this mean that you're abandoning or you -- I mean, you did submit an updated DCF analysis at 9.0 to 9.6 percent. Correct? In rebuttal?

DR. HADAWAY: The DCF, yes, sir.

COMMISSIONER JONES: So that still stands, and I credit you for giving us a range of information. So you're not changing that information?

DR. HADAWAY: I can't. I don't have the data to change that.

COMMISSIONER JONES: Okay. So then the question I think that we're trying to get at is what would a zone of reasonable estimates be taking into account? Because you seem to be saying we should give more weight to risk premium, still give some weight to DCF, and ignore CAPM. So, I mean, what would a range of the low end and a range of the high end be if we weighted 70/30, 60/40, however you want us to do it?

DR. HADAWAY: Let me say I think that's a very difficult question, because I would like to say that the DCF model right now simply doesn't give a reliable estimate, with your knowledge of how the models work, and what's the consideration, that you would give consideration to its being on the very low side, then perhaps 9.6 at the top of that range is the very low end of it. But in doing that, I would only endorse that if the top end of the range -- I said I was filing other rebuttal today -- that the top end of the range there is 10.4. It's a triple B rated company. But something like that sort of a range that surrounds ten percent pretty well is where the risk premium numbers are going to bring you right now.

JUDGE MOSS: It's time for a break, but I want to see first, to explore the possibility of letting these fine witnesses retire from the stand.

We've had a very thorough and balanced, and I might say polite, conversation with the bench, and I feel that my capacity for absorbing more information on this subject is growing more limited by the moment. But my thought is that we probably don't need anything further from the parties. So unless there's some strong pushback against that, can we let these witnesses get off the stand?

I'm hearing no objections to that idea.

MS. McDOWELL: You know, I just had I think one correction I needed to make.

JUDGE MOSS: A correction?

MS. McDOWELL: It was an answer that Mr. Williams gave, that I may have heard wrong, but I think he may have transposed.

JUDGE MOSS: Let's make sure the record is accurate. Go ahead.

MS. McDOWELL: That's all. May I proceed?

JUDGE MOSS: Go ahead.

MS. McDOWELL: Mr. Williams, I may have heard this wrong. When you were talking about the equity components of the capital structure in other states, I thought I heard you say 51.2 percent, and I wondered if that transposed numbers.

MR. WILLIAMS: It should have been 52.2 or 52.1 percent. If I mixed those up, I'm sorry.

MS. McDOWELL: It's possible I misheard that, but I wanted to make sure the record is clear.

JUDGE MOSS: I sincerely meant what I said. Thank you all very much. That was a very interesting presentation.

MS. McDOWELL: Judge Moss, I know Dr. Hadaway has a flight to catch. Is it permissible for him to be excused at this point?

JUDGE MOSS: I think so. We've had about as much conversation as we need with you, Dr. Hadaway, if you'd like to fly back to Austin.

DR. HADAWAY: I've changed to 6:30 in the morning. I already changed it.

JUDGE MOSS: It's hot in Austin anyway.

MS. DAVISON: Is the same true for Mr. Gorman?

JUDGE MOSS: That's fine.

Mr. Gorman, if you need to leave, that's fine.

Let's come back at about five after the hour, folks.

(A break was taken from 2:54 p.m. to 3:07 p.m.)

JUDGE MOSS: Let's go back on the record.

BRYCE DALLEY

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Thank you. Please be seated.

Anything preliminary for Mr. Dalley?

MS. WALLACE: No. He's available for cross.

JUDGE MOSS: He's available for cross. We have some cross indicated, I believe. This would be staff, I believe you've indicated 15 minutes.

MR. CEDARBAUM: Yes, Your Honor.

JUDGE MOSS: And five for public counsel.

Go ahead, Mr. Cedarbaum.

CROSS-EXAMINATION

BY MR. CEDARBAUM:

Q. Good afternoon, Mr. Dalley.

A. Good afternoon.

Q. You're the company's rebuttal witness to staff witness Kendra Smith on interstate cost allocations with respect to nonpower cost matters. Is that correct?

A. Yes. I respond to Kendra White's testimony.

Q. And we're here talking about staff's proposal --

staff I guess has a two-tiered presentation. The first tier is to reject the company's proposed modifications to the west control area and a jurisdictional cost method, and to require a report for the next rate case. Is that correct?

A. That's my understanding of staff's primary proposal, yes.

Q. The second tier would that the commission accepts the company's proposed modification. The staff has some additional ones that it's proposing the commission make as well.

A. That's staff's stated position, yes.

Q. In your rebuttal testimony, you're critical of the staff's recommendation to the company to file this cost allocation report after this case is over. Is that right?

A. Yes. That's correct.

Q. And you understand that the staff's report that it recommends focuses on the west control area and the jurisdictional cost methodology?

A. That's the report they're requesting?

Q. Yes.

A. Yes. And the reason I am critical of it is because we filed a report as part of this case, after the five-year trial of the WCA had concluded, we presented a report as part of this rate case.

Q. That's the report that's in your direct testimony, your Exhibit 2?

A. That's correct.

Q. Just for clarification, the report that staff is recommending, your understanding is that would focus on the WCA approach. Is that right?

A. It's my understanding -- yes. It's my understanding that Ms. White has outlined a few things that she would like to look at that are related to the WCA, but the WCA report that's filed as my exhibit is also related to that same methodology.

Q. Also in your rebuttal testimony, I don't need you to find the specific citation, but you also refer to the multi-state process that the company gave involving all of the company's states and the examination of the cost allocation. Is that right?

A. Yes. Those discussions are currently happening. We were pleased the staff participated. Just last week, Thomas Schooley and Jason Ball participated in one of those MSP conference calls.

Q. The MSP process, at page 5 of your testimony at line six through eight, you indicate that that focuses upon the 2010 protocol methodology. Is that right?

A. Well, the other states that are participating at that table use the 2010 protocol interjurisdictional allocation methodology, and so the discussions there are based primarily around that methodology, but they're not limited to just the current construct of that method. And so parties at that table are analyzing and evaluating other options to replace the 2010 protocol when it expires in the 2016, 2017 time period.

Q. Is the MSP process focusing on the WCA approach?

A. It doesn't focus directly on the WCA approach, but there are elements of the WCA that are considered as part of those analytics.

Again, I wouldn't say that the MSP is just focusing on one methodology. It's focusing on allocation issues in general, and parties from different states have proposed a number of different analytics that they would like to see the company run, and we're at kind of the beginning stage of that and collecting what the parties would like to see analyzed during those discussions and kind of identifying the timeline of when those analyses will be conducted.

Q. With respect to the MSP process also on page 5, lines 14 to 18, you state that staff and other parties have not been participating -- have not participated in the MSP discussions since approximately 2004. I guess you've qualified that with respect to this latest meeting that you said staff members attended.

A. That is correct. Last Thursday there was an MSP call and Tom Schooley and Jason Ball participated for Washington staff.

Q. And the time period since 2004 would include a five-year trial period for the WCA that followed the company's 2006 rate case. Is that right?

A. Yes. 2004, I believe the WCA was adopted by the commission as part of the 2006 rate case, and was adopted in the middle of 2007, and so there was probably two or three years in there, or more, where there was not the WCA, but that staff hadn't participated. I wasn't involved in the discussions in MSP that early in my career, but I have been involved more recently.

Q. For five years of that period, since 2004, that was the -- before this commission, that was the time period in which the WCA was in trial mode. Is that right?

A. Yes, that's correct.

Q. And then following that, in the 2011 case, the commission established the Washington Collaborative. Is that correct?

A. Yeah. I think it was a stipulation amongst all the parties to establish the collaborative process, where we'd be able to sit down and have discussions outside of a litigated case and come up with solutions and ideas to potentially improve the regulatory environment and mechanisms here in the state.

Q. When did the collaborative end?

A. The collaborative concluded -- I believe there's an exhibit, it was introduced for Ms. White, but I believed it concluded at the end of October 2012. I could verify that if you give me a second.

Yes, October 25th, 2012, was the last meeting.

Q. If I could have you turn your attention to Cross Exhibit RBD-7CX. Do you have that?

A. Yes. This is, just to be clear, it's the company's response to staff data request 286.

Q. Correct. You have that in front of you?

A. Yes, I do.

Q. In this data request we asked the company to provide a date list of the dates and attendees at all MSP meetings since the Washington Collaborative ended, and any documentation of the Washington staff being invited or informed of those MSP meetings. And then there's a list. There's documentation on the first page, some narrative, the second page is kind of a grid of the meetings and the attendees, and then pages 3 through 8 are individual e-mails sent to the three commissioners of the Washington Utilities and

Transportation Commission inviting each of them to an MSP -- what is it called? It's the commissioners' forum on March 16, 2012. Is that correct?

A. That's correct.

Q. And the purpose of that commissioners' forum was to hear the report from PacifiCorp with respect to activities at the MSP?

A. Yeah. It really -- I would classify it as kind of the kickoff of the next round of MSP meetings. The MSP never concluded and started anew. It's continued really since the inception of an allocation methodology that was approved by the majority of the company states.

But this particular meeting was what I would kind of classify as the beginning of evaluating what methodology will replace the 2010 protocol. That's set to expire in the 2016, end of 2016 time frame, and the parties were getting together to discuss alternatives, potential modifications. So this would be kind of the kickoff of that process.

Q. I'm referring you to what's been marked for identification as Exhibit RBD-5CX. This appears to be a company response to staff data request 240. Are you familiar with this document?

A. I am.

Q. I don't want to get into the specifics of it, because it does say response was Mr. McDougal, but I think my questions are at a higher level than that -- a more general level I guess I should say.

A. Thank you.

COMMISSIONER GOLTZ: We knew what you meant.

BY MR. CEDARBAUM:

Q. Anyway, in the request we asked the company to explain how to create a new allocation factor within the RAM and JAM models used in the company's case, and then the response indicates a number of tabs and macros that would need to be change to do that. Is that right?

A. That is correct. And as a former revenue requirement manager, I'm closely aware of how these models work and operate and some of the complexities that are included in them.

Q. So this looks like a fairly complicated process?

A. Well, to create a new allocation factor, that is -- I guess it depends on how you look at it. From my perspective, adding a new allocation factor to the model would be -- like, say, you wanted instead of, you know, CAGW factor you wanted to add an ABC factor. To go into the model -- and these are Excel-based models with several macros and links and formulas -- and simply just to add in a line for this ABC new factor would require some extensive modeling changes.

The model is not designed to just simply add a factor. We haven't added a factor to the model since the WCA was adopted. And so the factors that are there and listed and for which the macros are built to work around are well established. And so to simply go in and say I want to do a new factor, ABC, would require some significant modeling changes.

Now, in this case, the company has proposed some modifications to the calculation of certain allocation factors, such as the control area generation west CAGW factor. Those modifications wouldn't require the extensive changes that are described here in this response.

Q. But with respect to a new allocation factor, it gets more complicated than that?

A. Short answer is yes.

Q. I'm referring you to what's been marked for identification as Exhibit RBD-6CX. Staff asked the company to rerun RAM and JAM to reflect the 2010 protocol, and keeping everything else the same. And on page 1 of the exhibit it appears the company objects.

Then if you were to turn to the second page, the response indicates that during the course of preparing rebuttal, the company did conduct that analysis and

provided it to staff in its response. Is that right?
A. That's correct.
Q. We did not include the attachment, because it's very long.
A. Yes.
Q. How many pages would it be?
A. Well, the JAM is our model that we use -- the RAM and the JAM are the two models we use in each of our jurisdictions. They are the way of taking per books data on a total company level and separating those down into each of the jurisdictions in which we operate, using the allocation methodology approved in that state.
Because of those complexities, and starting with one accounting system, the models can be complicated. I mean, there's no doubt about that. We've tried -- through this rate case I believe we've had several discussions with staff on how the models work, we've had tutorials and workshops and things of that nature, accommodated them at our offices to try to show how these models works, and are always available by phone to help assist in kind of some of these more technical aspects. But, yes, these models do require some extensive modeling and macros.
Q. If we were to have printed out the attachment to 65, we're talking hundreds of pages for the document?

A. I would say, yeah. A thousand. I'd have to try to print it. I've never tried to print the model because it's really not a printable document. It has pages that are designed to print, but the model itself is not. So I think if you print all pages, it would probably more likely be thousands rather than hundreds.

Q. The last area I have to cover with you is on page 6 of your rebuttal testimony. At the top of the page, you state at lines one and two that all the staff's adjustments appear to be designed to reduce Washington's share of the cost. Do you see that?

A. Yes, I do.

Q. The context of this is that second tier recommendation of staff for specific WCA modifications in addition to the company's should the commission go down that road?

A. Yes. I believe that staff's position, although it's still a little unclear to me, because staff's primary position in this case, I believe, is just to maintain the status quo and adopt no changes to the WCA. But where the confusion gets in is there's an alternative proposal that if the company -- or if the commission should decide to adopt the company's proposals that they should also adopt staff's. And I don't see how that would be possible, since staff's secondary or alternative recommendations are in direct conflict with the company's proposals. So I don't see how the commission could accept both of them.

Q. I wanted to ask you questions about Exhibit RBD-8CX, which is the last cross exhibit we have for the company, for you. Specifically in the context of that testimony on page 6, where you indicate that all of staff's adjustments appear to be designed to reduce Washington's share of costs. And so --

MS. WALLACE: I'm sorry to interrupt. I just wanted to point out that we aren't going to object because you've made it clear that illustrative exhibits involving math are fine, but we did want to note for the record that this wasn't our understanding of staff's primary position. It wasn't PacifiCorp's understanding that this was staff's position on CAGW. And the first time we saw these calculations were when we received this exhibit, and they're based on actually calculation of staff's position. Of company, not staff.

JUDGE MOSS: That company conducted?

MS. WALLACE: Yes.

JUDGE MOSS: Go ahead, Mr. Cedarbaum.

BY MR. CEDARBAUM:

Q. Mr. Dalley, looking at Exhibit 8CX, this involves an allocation factor CAGW. Is that correct?

A. Yes.

Q. Just briefly, for the record, what is that allocation factor used for?

A. The CAGW, or control area generation west factor, is the primary factor used in the west control area allocation methodology to allocate to Washington its share of generation and transmission resources.

Q. Is it correct the top half of the page, or lines one through five, shows the company's calculation of its CAGW factor?

A. That is correct.

And this is a -- one of the proposals that we've made in this case is to take the CAGW and weight -- which has two components, as kind of outlined here. There's an energy component and a demand component, and then we take those two and weight them.

And the weighting of 62 energy, 38 percent demand, is a change that we've made or propose to make in this rate case, to align it with the demand energy weightings that are used in the company's cost of service study.

And so using those two weightings, the 62 energy and the 38 demand, produces a control area generation west factor for Washington of 22.6265 percent.

Q. Now, looking at the bottom half of the table, under the staff column, the staff section, have you checked the math on this?

A. I have not gone into the spreadsheet, but conceptually I understand that it's the same as the top section of the spreadsheet, in that it's showing a 73 percent energy and 27 percent demand. I think this demonstrates a couple things. As I mentioned earlier, it would -- the company's proposal is the 62/38, and even if the staff's proposal is 73/27, which I'm not sure that it is, the commission couldn't accept both. It would have to decide one or the other. But the 73/27 that's outlined there for staff was a calculation that actually we performed as part of our rebuttal testimony.

Q. I believe you're referring to Ms. Steward's testimony?

A. It's actually in my testimony. If you give me a moment I'll -- on page 9 of my rebuttal testimony, beginning on line five, I state that staff's alternative proposal would result in demand energy weightings of 27 percent demand, 73 percent energy, which is nearly the inverse of staff's primary recommendation of maintaining that the 75 percent demand/25 percent energy weightings used in the WCA approved in 2006.

I go on to say that we had asked a data request of staff, once we received their testimony outlining maybe the basis of how this would be calculated, to see if they had conducted the analysis to see what this would result in. And that's Exhibit RBD-4, is attached to my rebuttal testimony. And in that response, staff indicated that it had not calculated its new method of determining the demand energy split and so the 27 demand, 73 percent energy was conducted by the company.

Q. And so using the company's 73/27 split, as you've calculated, results in a lower CAGW allocation factor on line 11 than the company's factor on line five?

A. I think it's the inverse. It's higher.

Q. I'm sorry. Higher.

A. Yes.

Q. So that would allocate more cost to Washington using line 11 versus line 5?

A. It would mathematically, yes.

Q. Thank you.

MR. CEDARBAUM: Your Honor, I would offer Exhibits RBD-5CX, 6-CX, 7-CX, and 8-CX.

JUDGE MOSS: Hearing no objection, those will be admitted as marked.

(Exhibits RBD-5CX, RBD-6CX, RBD-8CX were admitted.)

MR. CEDARBAUM: I have no more questions.

JUDGE MOSS: All right. I believe Ms. Gafken you've indicated some cross for this witness?

MS. GAFKEN: Yes. I expect it should be brief.

CROSS-EXAMINATION

BY MS. GAFKEN:

Q. Good afternoon, Mr. Dalley.

A. Good afternoon.

Q. We've already heard some testimony about the multi-state process, and I had some questions about that. PacifiCorp's primary recommendation is that the commission order its staff to participate in those discussions. Correct?

A. Yes. Staff has indicated in the collaborative, and as demonstrated by participation just in the last week, that they've accepted that invitation.

Q. Would PacifiCorp like other Washington stakeholders to participate in those discussions as well?

A. Yes. In fact, if you'd look at the participants from the other jurisdictions, I know that the industrial customers of northwest utilities are participating I think on behalf of Oregon customers at this point. But there are other intervenors and groups that participate, yes.

Q. Do other consumer advocates participate?

A. Yes. Our Oregon, the one -- I know there are some on the east side that I'm not as familiar with, but our citizens utility board in Oregon participates actively in those.

Q. How often do the MSP discussions takes place?

A. Generally they meet on a monthly basis. Some of those are phone calls, sometimes they're in person, but generally the discussions have occurred on a monthly basis.

Q. When they are in person, where are they typically held?

A. Typically I think they've been in Salt Lake City, although I think the locations have been moved over the years. I know they met in Las Vegas. For a number of years they've met in Boise. I think there have been meetings in Portland.

Q. Are they typically day long or more than one day?

A. It really depends. Some of the conference calls can be a couple of hours, others can be a full day. So it just depends on the issues that are being presented and discussed and how much time it might take to get through those.

Q. For the in-person meetings, is there the opportunity for remote participation?

A. Yes. There's always a dial-in. There's always a conference call line if folks can't make them in person. We've done that to try to accommodate folks that aren't local. If we have a meeting in Salt Lake, the folks in Portland participate, and people have made use of that.

Q. Is there currently a regular schedule for the meetings? Have they been scheduled out for the next year? What does that look like?

A. Yeah. I think in one of the cross exhibits that Mr. Cedarbaum just took me through had kind of an outline of the meetings that are in the near future.

If you look at I think it's RBD-7CX. And it shows that for the remainder of 2013 -- we just had a meeting last week, August 22nd. There are meetings scheduled for September 18th, October 24th, November 14th, and December 12th; some of those in person, some of those conference calls. The in-person meetings are in Salt Lake City and in Portland.

MS. GAFKEN: I think those are all my questions. Thank you.

JUDGE MOSS: Thank you.

Anything from the bench?

CHAIRMAN DANNER: Just a few questions here. I saw e-mails that you sent out to each of the commissioners, and this is before my time on the commission, I didn't see the responses. Was that just a telephone or did somebody get on the phone if they weren't going to be there, or was there a document or response to the e-mails? Do you recall?

THE WITNESS: In the last sentence of the data response, Kristi Wallis is our standing neutral that's hired to kind of facilitate these discussions, and she notified the company that an e-mail declining participation was received, although she did not provide a copy of that e-mail to the company.

CHAIRMAN DANNER: So that you don't know if there were any reasons given or anything?

THE WITNESS: I do not.

CHAIRMAN DANNER: I can find that elsewhere, although it's not in the record.

My other question is I saw on the list the participants. California does not participate?

THE WITNESS: They do not. We are a fairly small player in California. They're obviously invited. It's kind of an open door discussion, but they have chosen not to participate at this point, although they do use the same allocation methodology as the other states.

CHAIRMAN DANNER: Thank you.

Oh, and Las Vegas, what part of the service territory is Las Vegas?

THE WITNESS: It was before my time, unfortunately.

CHAIRMAN DANNER: Thank you. That's all I have.

JUDGE MOSS: What part of the business is California? I understand we're about seven percent here in Washington.

THE WITNESS: It's a little less than two percent.

JUDGE MOSS: All right. A little smaller.

Any redirect?

MS. WALLACE: Just one redirect.

REDIRECT EXAMINATION

BY MS. WALLACE:

Q. Do you recall Mr. Cedarbaum asking you a few questions about RBD-6CX? It's the company's response to data request 265.

A. Yes.

Q. Why didn't the company provide the 2010 protocol model when it was requested the first time?

A. Well, as the response says, we didn't provide it because we're not proposing to use the 2010 protocol as part of this case, as evidenced in testimony.

But, second, it is quite the analysis to convert a revenue requirement from the WCA to the 2010 protocol. It's kind of, as discussed with Mr. Cedarbaum, the modeling would require some work to get it there. And so -- and even in our rebuttal testimony, when we saw the parties' positions and how they created a further allocation gap for the company, we felt that it was appropriate to conduct that analysis, but it was done on the filed case, not on the rebuttal case, just because the time it took to pull that analysis together.

MS. WALLACE: Thank you, Mr. Dalley.

JUDGE MOSS: Nothing further?

Okay, Mr. Dalley, thank you for your time with us on the stand.

And we'll have Mr. Duvall next.

GREGORY N. DUVALL

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

JUDGE MOSS: Any preliminaries?

MS. McDOWELL: Yes, Your Honor. I just wanted to note for the record that the company did file an errata for GND-7CT. So as I understand it, Mr. Duvall has no corrections to make here today, but there are a few corrections that we noted in our prefiled.

JUDGE MOSS: Okay. You filed substitute pages. We have those at the bench, so we don't really need to go through it unless you just want to.

MS. McDOWELL: We filed this so we wouldn't have to go through it.

JUDGE MOSS: That's good practice to follow. And others did also in this case. So we have the corrected testimony. Just so you know, I keep the originals too.

MS. McDOWELL: I appreciate that. I just wanted to bring that to folks' attention. We'll be working off the testimony with the errata.

So this witness is available for cross-examination.

JUDGE MOSS: All right. We have two parties indicating cross-examination. Public counsel and Boise White Paper. Any preferences?

Go ahead, Ms. Gafken.

CROSS-EXAMINATION

BY MS. GAFKEN:

Q. Good afternoon, Mr. Duvall.

A. Good afternoon.

Q. PacifiCorp is proposing that the cost of power from PURPA-qualifying power facilities outside of Washington should be included in the NPC allocated to the Washington jurisdiction. Is that correct?

A. That's correct.

Q. So for ease of reference, I'm going to refer to the PURPA-qualifying power facilities as QFs. I'm hoping that's okay with everybody.
A. Fine with me.
Q. Did PacifiCorp ask for recovery of power costs from QFs outside of Washington in its last rate case?
A. No, not in the WCA.
Q. Did PacifiCorp ask for recovery of power costs from QFs outside of the Washington in the rate case before the last one, so two cases ago?
A. No. The QFs outside of Washington have not been included during the pendency of the trial period of the WCA.
Q. So during that time PacifiCorp has only requested QFs that exist inside of Washington be included in Washington rates?
A. Yeah. That's correct. That was part of the WCA.
Q. Are you familiar with power flow studies?
A. Not very. I know what they are, but I don't conduct power flow studies. Our transmission group would do that.
Q. But do you know what they are?
A. I do.
Q. So just answer to the best of your ability.

I'll ask the question, and I think you'll know the answer, but we'll see.

A power flow study would show how power produced by QFs outside of Washington is flowing to Washington customers, wouldn't it?

A. I don't know exactly if it would or not.

Q. Do you know whether PacifiCorp has conducted a power flow study?

A. Well, PacifiCorp transmission conducts power flow studies when they're looking at planning transmission lines.

Q. Would you please turn to your cross exhibit GND-15.

A. Okay.

Q. This is a data request that public counsel asked of PacifiCorp. And it says to be determined for the sponsor. But do you recognize the data request that appears in Exhibit 15-CX?

A. Yes, I do.

Q. If you'll turn to the second page of the exhibit, section E. Would you read the last sentence?

A. The company has not prepared power flow studies for the Washington service area.

Q. Would you please turn to cross exhibit GND-14CX.

A. Okay.

Q. That is a data request that PacifiCorp requested of staff. Do you recognize that data request?

A. Yes, I do.

Q. Would you agree that the staff provided information of Oregon's policies recording power purchases from QFs in response to that data request?

A. Yeah. They provided information on a distributed generation report from Oregon, which included information on qualifying facilities as well.

Q. If you would turn to cross Exhibit GND-16CX. This exhibit does contain confidential information, but I don't expect to require any confidential information to be actually spoken. I think we can remain in an open session, in other words.

A. Okay.

Q. In flipping through the exhibit, is it fair to say that the vast majority of QFs are located in Oregon?

A. Yes, they are.

Q. Is it also fair to say that QF contracts are both older and newer? I mean PacifiCorp has newer QF contracts.

A. That's correct. There's a variety of vintages of the QF contracts.

MS. GAFKEN: At this time I would like to move to offer Cross Exhibits 14 and 15CX.

JUDGE MOSS: No objection. They'd be admitted as marked.

(Exhibits GND-14CCX and GND-15CCX were admitted.)

JUDGE MOSS: That completes your questioning, I take it?

MS. GAFKEN: Yes, that completes my questioning.

JUDGE MOSS: Ms. Davison, I believe you have some questions for this witness?

MS. DAVISON: Your Honor, we had two cross-examination exhibits for Mr. Duvall, one of which counsel for PacifiCorp indicated is best for Cindy Crane, so we are not going to offer the first one. And we do not have any cross-examination for Mr. Duvall.

JUDGE MOSS: Okay. So what has previously been mark as GND-11CX you may use with Crane, or not at all? Is that correct?

MS. DAVISON: It's 12 and 13.

JUDGE MOSS: No. 12. Okay. You have three exhibits for you here. 11, 12 and 13.

MS. DAVISON: Right. No. 11 we are not going to offer; 12 and 13 will be for Crane.

JUDGE MOSS: No, I have it straight. No cross.

Does the bench have questions for Mr. Duvall?

COMMISSIONER JONES: I have a few.

JUDGE MOSS: Mr. Jones has a few.

COMMISSIONER JONES: Good afternoon. I'm going to ask you some questions primarily about the QFs.

So you have stated in your testimony that PURPA requires in some way cost recovery for these sorts of QF facilities in a control area or an earlier state jurisdiction. I realize that PURPA is a federal statute, requires the qualifications of QFs by FERC, and other terms and conditions in a contract, but isn't it true that state PUCs like us retain primary jurisdiction over key elements of both calculation of avoided costs, and that's on the utility purchase obligation, and generally how cost recovery issues are handled?

THE WITNESS: Yeah. They're I think the type of resource, the size of the resource, and the sort of the overall methodology are things that are outlined by FERC, but each state commission implements the purchase of QFs in different ways to some extent.

COMMISSIONER JONES: Okay.

On page 7 you state that the weighted average of the Oregon and California contracts in this case is now $77.20 per megawatt hour. Is that correct?

THE WITNESS: That's correct.

COMMISSIONER JONES: Does this take into account recent contracts in Oregon that have either been terminated -- I think you state that four contracts have recently been terminated or substantially renegotiated.

THE WITNESS: The only change between the direct and rebuttal was the cancellation of the Butter Creek wind plants. $77 was based on the original filing, and I have not recalculated the number after the cancellation of Butter Creek, but I don't think it would change much.

COMMISSIONER JONES: Are there more QF contracts now that you are presently renegotiating or possibly interpreting that could bring this average cost down further in the foreseeable future?

THE WITNESS: Not that I'm aware of, either down or up.

COMMISSIONER JONES: In your testimony, I think on page 14, you cite to a press release that we issued recently on interconnection policy requirements. So what is that statement trying to purport? Because that was meant to deal with -- I think that you quoted Chairman Danner on this, I don't want to put words in his mouth -- but I think it was focused on the interconnection requirements, not on PURPA and QFs, per se.

CHAIRMAN DANNER: What page is that on?

JUDGE MOSS: Are we on rebuttal testimony?

COMMISSIONER JONES: Rebuttal.

JUDGE MOSS: That's GND-7CT.

COMMISSIONER JONES: GND-7CT. Isn't it on page 7? Got it?

So what's the effect of that attribution? Because we really don't deal with QFs, as I understand it, in our policy statement.

THE WITNESS: Okay. So Mr. Gomez, in terms of talking about Oregon energy policies, cited an Oregon document on distributed generation.

COMMISSIONER JONES: Okay.

THE WITNESS: And there were issues in there. Washington has also created a report on distributed generation. That was October 7th, 2011.

COMMISSIONER JONES: I remember it well.

THE WITNESS: Yeah. That's an exhibit in -- a cross exhibit for Mr. Gomez. But in that document there are a number of issues relating to QFs in terms of things like increasing the contract length and things like that, which line up very closely with the Oregon energy policies on QFs. That's really the point, that there's not a whole lot of difference, from what I can tell, between Oregon and Washington policies on QFs.

COMMISSIONER JONES: So is your primarily argument that the three states, California, Oregon and Washington, have similar policy frameworks on distributed generation, renewable generation, and therefore we should accept your proposal to include these QFs, or is it more the FERC, the federal law, requires us to do it?

THE WITNESS: No. It's the former. The energy policies are fairly aligned. Each state has their RPS and each state has emission performance standards. Very aligned in that way.

But I think probably more importantly is the $77 for the Oregon and California QFs is a reasonable price. It's not out of line. The non-QF prices, as the public counsel indicated in their testimony, average about $72. Within that $72 average, the Hermiston generating facility, the PPA with Hermiston is $75. The PPA with the Camas co-gen facility is $97. Those are both in Washington rates, and no one has taken any kind of issue with those.

We've looked at -- I've put in information about what the QF prices in Puget's rates are, which are $97 to $73 in their last two cases. So given that the $77 kind of falls into a reasonable range, and these are all renewable resources, that distributed generation, which seemed to be aligned with Washington energy policy, you know, those reasons, along with, you know, a few others like, you know, all of the other states that we operate in consider that QFs system resources and allocated system wide, so all the other five states are paying a portion of the Washington QFs, and vice versa. So it's -- those are the reasons.

COMMISSIONER JONES: Okay. Thank you.

That's all I have.

JUDGE MOSS: Anything on the redirect?

MS. McDOWELL: Nothing.

JUDGE MOSS: All right. Mr. Duvall, I appreciate your time with us on the stand, and you may step down, subject to recall if needed.

And this brings us to Crane. Boise White Paper has indicated some cross.

CINDY A. CRANE

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Please be seated.

Any preliminaries?

MS. McDOWELL: Yes, Your Honor. I believe Ms. Crane has a correction to her prefiled testimony.

THE WITNESS: Yes, I do.

JUDGE MOSS: Okay. I think we can go ahead.

THE WITNESS: Yes. On page 3 of my rebuttal testimony, line 12, the sentence that starts, "I base the Colstrip coal costs in my direct testimony," should be changed to reflect I based the Colstrip coal costs in Mr. Duvall's direct testimony. I do not have any direct testimony in the case.

And that's all.

MS. McDOWELL: Thank you, Ms. Crane.

This witness is available for cross-examination.

JUDGE MOSS: All righty. Ms. Davison, proceed.

MS. DAVISON: Thank you, Your Honor.

As you know, we have a variety of cross-examination exhibits that we had attempted to get a stipulation into the record, and so I thought before I went through a boring, laborious attempt to lay foundation or relevancy for these exhibits, because they all go to exactly the same issue, that perhaps we could revisit that and see if there are some exhibits that we could just have stipulated into the record and not waste everyone's time on this issue.

JUDGE MOSS: With a setup like that, I have to give an opportunity to discussion at least.

MS. McDOWELL: So, Your Honor, in discussions with counsel prior to the hearing today, we did indicate that we had some objections to these exhibits. I think the foundation of our objection, and a lot of what you'll hear from us today, is that Boise submitted an approximately two-page adjustment related to Bridger coal coasts on the basis that the coal supplies should be repriced at what they purport is a market price, it's not a cost-based prise.

We don't, frankly, see a lot of relevance to -- we don't understand the relevance of many of these exhibits to that adjustment. There's a lot of stuff here on coal inventory which was never a part of that adjustment, and we don't understand how that plays in.

In all of our cross exhibits we use excerpts from testimony and prior proceedings, so there was some clear indication to us to -- to the other folks about what we were going to be cross-examining on here. Here it's complete sets of testimony mostly from east side jurisdictions.

So we just really don't understand what the relevance of these is. On that basis, we were not willing to stipulate them. It's possible she could lay a foundation for them, it's possible we would come to understand it.

I think our major concern here is that Boise is attempting through some of these exhibits to establish a new adjustment or expand their adjustment to some kind of coal inventory issue based on these cross exhibits and we think that's an improper approach.

JUDGE MOSS: Well, the issue here as I understand it is Boise takes the position that the coal should be priced as if it were an affiliate transaction.

MS. DAVISON: (Nods head.)

JUDGE MOSS: And as provided in the settlement agreement ultimately approved by this commission, that approved the merger or the sale of the company in general, with respect to affiliate transactions that was the treatment afforded.

What is it you expect to show with these exhibits that it somehow falls within that? I mean, the company's counter position is that, well, no, that's not the way the commission treats this. The commission treats these coal costs from the affiliate coal mine as if it were a company asset being offered by PacifiCorp to produce fuel for its plant. So how do these exhibits fit into picture?

MS. DAVISON: Thank you, Your Honor.

Essentially I think the point we're trying to raise is not a huge point, and I'll say at the outset that we seem to never get it right with PacifiCorp. We just concluded an Oregon case in which we were chastised for doing excerpts of testimony, so we were trying to anticipate this and put all the pages in. So we're happy to excerpt. But like I said, we seem to never get it quite right on that.

Essentially what we're going after is exactly what you said, Judge Moss. What these documents show is the company's position and testimony about the availability of the coal, and market options for the coal, and it's as simple as that. I'm not going to try to make it more complex than what it is.

JUDGE MOSS: Well, it's a fair amount of material, and sitting here at this moment, I don't think I'm prepared to go through it at 4:00 in the afternoon and decide, particularly on a part-here-part-there basis, what should and should not be.

So I'm going to ask that we put Ms. Crane aside for the day, take up our next witness, and I'll look at this overnight, and we can rule. That way we won't spend a whole lot of hearing time arguing back and forth about specific points in these proposed exhibits. Is that agreeable to everyone?

MS. DAVISON: I think that makes a lot of sense.

MS. McDOWELL: That's fine. I do have specific points that I can, you know, highlight with respect to each exhibit if that would be helpful. I mean, I would hate for you to go and rule on all these without hearing our specific objections to these exhibits.

JUDGE MOSS: Oh, yeah, I'll hear you, I just don't want to spend time right now. I'll hear you in the morning and then I'll go get the commissioners. How about that?

MS. McDOWELL: That suits me fine.

JUDGE MOSS: Ms. Crane, with apologies for exciting your nervous system unnecessarily --

THE WITNESS: Not a problem.

JUDGE MOSS: -- we'll have you back in the morning after I hear the argument between counsel and make a ruling.

THE WITNESS: Thank you.

JUDGE MOSS: Thank you very much.

MS. McDOWELL: Let's see whose nervous system gets excited next.

JUDGE MOSS: Well, it would appear that Mr. McDougal is up next on the list here, although for the volume of testimony, surprisingly brief cross-examination.

STEVE R. McDOUGAL

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Thank you. Please be seated.

Nothing preliminary, Ms. Wallace?

MS. WALLACE: No, Your Honor.

JUDGE MOSS: Let's get right down to it. We have cross-examination from staff, five minutes.

Mr. Cedarbaum?

MR. CEDARBAUM: No questions.

JUDGE MOSS: Mr. Cedarbaum has waived his cross.

We have public counsel, 15 minutes.

MS. GAFKEN: I don't think it will be 15 minutes, but I do have a few questions for Mr. McDougal.

JUDGE MOSS: Proceed.

CROSS-EXAMINATION

BY MS. GAFKEN:

Q. Good afternoon.

A. Good afternoon.

Q. Please turn to rebuttal testimony SRM-15, go to page 25, line 16 through 18.

JUDGE MOSS: You're going to have to give us a little more time with this one, because of the large size. This is rebuttal, which is what number?

MS. GAFKEN: Yes. Exhibit SRM-16 rebuttal testimony, page 25, line six through 18.

JUDGE MOSS: I think we're there.

BY MS. GAFKEN:

Q. There you state that PacifiCorp disagrees with public counsel's revenue normalization adjustment.

Correct?

A. That is correct.

Q. Public counsel's revenue normalization adjustment would annualize the level of revenues that would be collected from the number of rate payors at the end of the test period. Correct?

A. That is correct. And in doing revenue normalization, you've got a varying amount of customers throughout the year, so to look at one period in time or one point in time rather than looking at a full 12 months we believe would distort the number.

Q. In this case, the effect of the revenue normalization adjustment as proposed by public counsel would be to reduce the adjusted test year revenues by approximately $1.7 million, which would then increase the revenue requirement by $1.7 million. Is that correct?

A. That is correct. We are aware that this adjustment actually would benefit the company, but just based upon the way it was calculated, we do not believe it is correctly done.

Q. PacifiCorp is recommending that rate base be measured at the end of the test period. Is that correct?

A. That is correct.

Q. And PacifiCorp agrees with public counsel's adjustment to annualized depreciation based on year-end plant values. Correct?

A. That is correct.

Q. PacifiCorp uses wage rates effective at the end of the period to calculate its labor expense. Correct?

A. That is correct.

Q. Would it then be conceptually consistent to annualize revenues based upon year-end numbers of customers if you were to use year-end values for rate-based annualized depreciation based on year-end plant values and annualized payroll for year-end wage rates?

A. In order to look at the annualization of revenues, you've got to look at a couple of different components. One, as you change --

Q. I'm sorry. I don't mean to interrupt, and please give your explanation, but could you answer whether it would be conceptually consistent first before going into the explanation?

A. Conceptually, it's not correct to do revenues at one point in time. The reason is when you're looking at revenues, you've got a couple of different components. You've got revenues, you've got what their impact is on energy, and then as you impact energy, you start impacting allocation factors.

So as you are looking at these, you have to look at all three of them, and if you look at the revenues, the number of customers, and megawatt hours, there's variability each month of the year. And so it's really -- I don't know of any way to really look and say we're going to look at a June number or a December number, because you have some customers that come and go throughout the year. So in looking at that kind of an adjustment, it's more appropriate to look at a 12-month period.

Q. Couldn't the same be said, though, with respect to plant or wages or depreciation?

A. On plant and on depreciation, what you're trying to do is you're trying to look at an amount going forward. We know that plant, if you look at the company's earnings and demonstration -- earnings and demonstration reports that have been filed with this commission, it is going up every year. So by going to end of period generally, it is better reflecting the plant in service, and more closely aligning it with the rate effective period.

Q. So I think you indicated that the other three components that I asked you about, you look forward to see what happens, and generally using the end of period might be appropriate. Isn't PacifiCorp projecting a decrease in customers going forward?

A. There is a decrease, and this is part of the thing that is happening with the production factor. So if you look at the production factor, it -- there is a decrease occurring between the historic and the forecast period.

MS. GAFKEN: That's all I have. Thank you.

JUDGE MOSS: Anything from the bench for Mr. McDougal? Apparently not. No?

COMMISSIONER JONES: Just one. Thank you, Judge Moss. Just a quick follow-up.

Mr. McDougal, is your problem with the revenue annualization adjustment that Mr. Coppola made is that it's done improperly or is it more that you cannot measure or annualize the number of customers throughout the year, or both?

THE WITNESS: Both. In order to really do revenues, because we do forecast test periods in many of our states, but what we do when we do that forecast test period is we will look at a 12-month period. When we look at that 12-month period to establish the number of customers, we then adjust the energy and we adjust the allocation factor. We do all of those. That's where the adjustment did not correctly look at all the impacts.

COMMISSIONER JONES: So is it conceptually impossible to do, or is it just that it was done improperly in this case?

THE WITNESS: I think more it was just done improperly in this case. It is conceptually possible, but you have to, like I said, you would have to do adjustment because in some of our service territory you do have seasonal customers.

COMMISSIONER JONES: Sure.

THE WITNESS: You would have to adjust for that, rather than saying let's use customers as of June 30th.

COMMISSIONER JONES: Sure. But isn't that true for all sorts of issues with all utilities, there are seasonal customers, and you normalize so many things in the rate making process? Right?

THE WITNESS: That is correct.

COMMISSIONER JONES: You do not contest the annualization of the depreciation amount that he made?

THE WITNESS: No, we did not.

COMMISSIONER JONES: Okay. Thank you.

COMMISSIONER GOLTZ: Judge Moss?

JUDGE MOSS: Yes.

COMMISSIONER GOLTZ: If you were in a quickly growing area, say parts of Utah, and you had a rate case like we had here, wouldn't your position be different? Wouldn't you want to have the end-of-year customers if it was a rapidly growing area?

THE WITNESS: If you were using historical data. Yes. In Utah we actually use a forecast test period.

COMMISSIONER GOLTZ: Right. I understand that. Therefore you use an average of the future year's -- monthly average, I suppose.

THE WITNESS: Yes.

COMMISSIONER GOLTZ: But in a modified historical test year, where you're trying to accommodate and predict based on historical data what the rate period would be, you'd want to go to the end-of-period rate base, end-of-period customers, wouldn't you? Accepting -- unless you've got like some oddity of the service territory where everybody takes off during December.

THE WITNESS: You'd want to look at the most recent data, I agree with that. But what you've got to do is, especially where we use allocation factors to allocate costs between Oregon and Washington, we look at a 12-month period, we look at the 12 peaks, and so we've got to try and somehow come up with those 12 peaks in order to allocate the costs.

COMMISSIONER GOLTZ: Nothing further.

JUDGE MOSS: Okay.

MS. GAFKEN: Your Honor, I want to clarify for the record. It was an adjustment for Mr. Dittmer, not Mr. Coppola.

COMMISSIONER JONES: Sorry.

MS. GAFKEN: I just wanted to make that technical clarification.

JUDGE MOSS: That's fine. Thank you.

Anything further from PacifiCorp?

MS. WALLACE: No, Your Honor. Thank you.

JUDGE MOSS: With that then, Mr. McDougal, thank you for your time with us on the witness stand, and you may step down, subject to recall.

The next two witnesses, Brown and Kelly, are witnesses for whom no cross-examination has been indicated, and we have stipulated in the prefiled materials. So they need not appear on the stand, unless they're just fraught with eagerness -- even if they're fraught with eagerness.

All right. Now for the witness Ralston. There was no cross indicated, but Commissioner Jones, you said you might have some questions?

COMMISSIONER JONES: Three or four.

JUDGE MOSS: If we could have Ralston.

MS. McDOWELL: Your Honor, if it would be

acceptable, he is in Salt Lake, we gave him the news
this morning that there will be some questions for him.
It would be best from his perspective if we could do it
tomorrow morning.

JUDGE MOSS: I think that will work for you,
won't it, Commissioner Jones? That's fine.

MS. McDOWELL: Whatever is most convenient.
He's available all morning.

JUDGE MOSS: Okay. We'll take care of that in
the morning.

MS. McDOWELL: But we do have other witnesses
here.

JUDGE MOSS: In fact, there's cross indicated
for Tallman.

MS. McDOWELL: He is available.

JUDGE MOSS: Let's have Mr. Tallman.

THE WITNESS: I am eager.

JUDGE MOSS: I can tell. You're standing up
there in the back.

MARK R. TALLMAN

Witness herein, having been first duly sworn on
oath, was examined and testified as follow:

THE WITNESS: I do.

JUDGE MOSS: Thank you.

Please be seated.

Anything preliminary?

MS. WALLACE: I don't believe so.

Mr. Tallman, do you have any corrections to your testimony?

THE WITNESS: I do not.

MS. WALLACE: No, Your Honor, Mr. Tallman is available for cross-examination.

JUDGE MOSS: Ms. Gafken, you have some cross for this witness?

MS. GAFKEN: I do have a little bit of cross for Mr. Tallman.

CROSS-EXAMINATION

BY MS. GAFKEN:

Q. Good afternoon, Mr. Tallman.

A. Good afternoon.

Q. I want to make sure you had access to Mr. Coppola's Exhibit SC-8C. If somebody could get that over to him, we will look at that exhibit during your cross.

A. I do not. Was this one of the cross exhibits?

MS. McDOWELL: No.

MS. GAFKEN: It's not a cross exhibit. It was a prefiled exhibit, one that we submitted under Mr. Coppola.

THE WITNESS: I do not.

MS. GAFKEN: Is somebody routing it to him?
MS. WALLACE: We're working on it.
BY MS. GAFKEN:
Q. In the meantime, would you turn to your rebuttal testimony, Exhibit MRT-2T, page 2, line nine.
A. Yes.
Q. There you testify that the current projected in-service date for the Merwin fish collector is February 2014. Is that still the correct projection?
A. Yes, that's our current projection.
Q. Now, you do have Exhibit SC-8C in front of you?
MS. WALLACE: That's what we just handed you.
BY MS. GAFKEN:
Q. If you could also refer to cross exhibit MRT-6C CX. Do you have both of those?
A. I have both.
Q. Do you recognize the cross exhibit MRT-6-C CX as a data request that public counsel requested of PacifiCorp?
A. Yes, I do.
Q. Do you see the response date of April 22nd, 2013?
A. Correct.
Q. And just to make sure that I didn't misspeak in my earlier question, Exhibit 6-C CX is the data response

to DR 70. Is that correct?

A. Correct. PC 70. I'm sorry. I was trying to track with you that.

Q. I'm trying to track with me too.

Would you accept that the numbers that appear on Mr. Coppola's Exhibit SC-8C were based on PacifiCorp's response to public counsel data request No. 70, which is the cross exhibit?

A. Without doing a comparison, no. I haven't reviewed Mr. Coppola's exhibit prior now.

Q. I think the exhibit will speak for itself. It notes that that's the source. I'm not sure --

JUDGE MOSS: That's all right. That will be plenty. Let's move on.

BY MS. GAFKEN:

Q. The numbers that appear in Cross Exhibit MRT-6C CX, the cross exhibit, the response to public counsel data request No. 70, were those numbers actual or forecasted as of the response date of April 22nd, 2013?

MS. WALLACE: Counsel, can you clarify? Do you mean the attachment or the text of the request? Or both?

MS. GAFKEN: Well, both. The numbers in the exhibit. I'm asking whether they were projected or actual at the time the response was made.

MS. WALLACE: Thank you.

THE WITNESS: Maybe you could help me out a little bit here. Is this question B on PC 70 that the attachment is referring to? I believe it is.

BY MS. GAFKEN:

Q. I think if you turn to page 5 of 6 of the exhibit.

A. Correct. So it appears to be a -- it's associated with the pro forma adjustment per the Merwin and any number of projects.

When the company responded to other data requests -- there's another data request I think that's more recent, that gives the company's most recent pro forma projection for the Merwin fish project. And I believe it's -- I think it's WUTC 194. And it gives a more recent update, and it's a combination of actual expenses through -- I think the most recent date was sometime in June or July, and then a forecast or pro forma adjustment beyond that. So I imagine here it's the same thing, it's a combination of the actuals and a pro forma.

Q. Would it be fair to say that the expenditures that are listed in Exhibit 6-C CX, after the April 22nd date, are projections?

A. Well, I think what I'm saying is that a more recent update that the company has provided is the third supplemental to WUTC 194, which is a combination of actuals --

Q. I'm going to object as nonresponsive. I understand that --

JUDGE MOSS: Ms. Gafken, I'm having a little trouble with your questions too. These exhibits are full of numbers, and the witness is not being referred to specific numbers. I don't think he's in a position to judge whether any given number is a forecasted number or an actual number unless you point him to the specific number and ask him about it.

MS. GAFKEN: I'm referring, Your Honor, to page 5 of the exhibit.

JUDGE MOSS: All right.

MS. GAFKEN: In particular, the Merwin traps numbers.

JUDGE MOSS: All right. And I think he told you as of the date of the exhibit, the numbers up to April were actual, and the numbers past that were forecast.

Is that what you testified? Did I understand that correctly?

MS. GAFKEN: It wasn't clear that that's what he said.

THE WITNESS: Well, what I'm saying is that based on the question in the data request, I can't tell from just looking at the exhibit what portion of it would be actual, what portion would be forecast, but I do know there's another data request that the company has responded to, and has kept up, that is a combination of actual and pro forma, and it generally shows by the end of the 2013 we will be spending in excess of 99 percent of the expected amount for the project.

JUDGE MOSS: The point being in response to the questions, it's a mix of actual numbers and forecasted numbers?

THE WITNESS: I suspect it is. I do not know that.

JUDGE MOSS: You don't even know if the early numbers are actuals?

THE WITNESS: Correct.

JUDGE MOSS: Does that get the answer you're looking for?

MS. GAFKEN: I think we can move on.

JUDGE MOSS: Okay.

BY MS. GAFKEN:

Q. Do you know whether the company updated the response to public counsel data request No. 70, which is the cross exhibit that we were just looking at, 60-CX?

A. Whether or not there was an update supplied?

Q. That's correct.

A. I'm only aware that there's just the one, because it came through as a cross exhibit.

Maybe I'm not following your question. Sorry.

Q. I was simply asking whether you knew whether the company had updated the response to public counsel data request 70.

A. I'm not aware that we have.

I do not believe so.

Q. I just have one more area to ask you about. If you would go back to your rebuttal testimony, MRT-2T, again at page 2, this time looking at lines 11 through 12.

A. Page 2?

Q. Yes. Lines 11 through 12. There you testify that the PacifiCorp contractor is contractually obligated to achieve substantial completion by February 2014 and final completion by May 2014. Is that correct?

A. That's correct.

Q. What happens if the contractor fails to meet those deadlines?

A. As is typical with many of our construction contracts, we have liquidated damages that are built into them.

Q. Have you ever had a situation where a contractor has failed to meet their deadline?

A. We've had situations where we've invoked liquidated damages. In this case I've previewed the critical path schedule and everything looks like it's on track.

MS. GAFKEN: Thank you very much. That's all I have.

JUDGE MOSS: Okay. Very good.

Does the bench have anything for Mr. Tallman?

COMMISSIONER GOLTZ: I have a couple questions.

JUDGE MOSS: Yes.

COMMISSIONER GOLTZ: So I understand you are referring to Exhibit MRT-6C CX, and in the response to public counsel data request 70, which is on page 2 of the exhibit, sub B, you say please refer attachment PC 70-1 and confidential attachment PC 70-2. Are those what's on page 5 and page 6?

THE WITNESS: That's the way I interpreted it, and I'm going by the cross exhibit that was sent over in preparation for the hearing. If you go to the data response, there's a number of files that are embedded in the response.

COMMISSIONER GOLTZ: I guess I'm just asking you if the attachment, which is page 5, and is labeled attachment PC 70-B, is the same as what is referred to in the response as PC 70-1, 70-2.

THE WITNESS: It's one of those, and then PC 70-1 or PC 70-2, there are a couple of files that are embedded in that response, so --

COMMISSIONER GOLTZ: If that's the case, isn't the response in sub C the answer to the question as to which are forecast and which are actual on page 2?

THE WITNESS: You're correct.

COMMISSIONER GOLTZ: In jurisdictions, in other jurisdictions where you may have a forward looking test year, and you assume similar calendaring as you have in this case, and you had a plant like the one at issue that's going into service months and months after the end of the case, how is the amount to go into rate base determined? Is it based on just estimates?

THE WITNESS: Well, it depends on the jurisdiction. Of course to the extent you're using a forward test period, but yes, if it was a forward test period, then it would be based on the pro forma view of the project.

I believe Mr. Griffith this morning brought up other ways to deal with these situations, such as a tariff rider approach. So there's different approaches that you can take.

COMMISSIONER GOLTZ: But in some of the jurisdictions, the commissions just accept the estimate like you have in this document?

THE WITNESS: Yes, that's my understanding. And then when there's a final accounting, appropriate adjustments are made going forward.

COMMISSIONER GOLTZ: Is that the way it's done in other jurisdictions, there's a forecast and then if you don't spend all that money you would adjust it downwards somehow?

MR. CEDARBAUM: If you know.

THE WITNESS: I'm a little bit over my ski tips on this one, so I'm going to refer to another witness. I'll have to think about who that might be. But to the extent you would pursue another rate docket going forward, then I believe it would get picked up.

COMMISSIONER GOLTZ: Okay. But you're not our best witness on that?

THE WITNESS: I'm probably not. I'm an operator hydro and wind assets.

COMMISSIONER GOLTZ: Okay. Thank you.

COMMISSIONER JONES: Good afternoon, Mr. Tallman.

One question on the Merwin fish collector project. We do not have a forward test year, we have a modified historical test year. So in general, what should be the cutoff date for projects for rate-based additions like this be set in your view? Date of filing, date of responsive testimony? And why? Or should we have some other standard, what some people call a bright line standard? Any thoughts on that?

THE WITNESS: I'll give you my thoughts on this project. I believe other witnesses have covered the company's position. But in this case, you know, we are saying that this project should go in, because it's an important project. I think there's some facts about this project that make it important to note.

First of all, it's a very important project for customers, in that this fish collector project at Merwin, coupled with the Swift fish collector, are the linchpins to our success in achieving a 50-year hydro license on our Lewis River production projects, which secures 50 years worth of emission-free, low cost hydropower, which in this case is included in the production cost modeling that's included on a pro forma basis for the net power cost model, which is again also based on pro forma views.

So I think the Merwin fish collector serves a special place for the company in the sense that it's very important for the benefit of customers. And the benefit of that license is being included in the case.

Now, with that, you know, I would also say that by the end of this year, we expect to expend 99.8 percent of the cost of this project, and our current forecast, in my rebuttal testimony, is within $200,000 of my direct testimony. So we're very confident in our forecast, very confident in the schedule. I've reviewed the critical path schedule recently.

And it's a project that needs to get done, will get done, and is first and foremost scheduled to be done so that we can meet our environmental obligations to our agencies, because we have salmon and steelhead runs that are returning at the end of the year, and we need to be able to operate our fish trap, collect the fish appropriately.

COMMISSIONER JONES: Regarding the FERC license, is there any specific date by which FERC requires you to complete this project per the approved license application in 2008?

THE WITNESS: Yes. Originally it was by the end of 2013. We had a delay in the project due to unforeseen conditions. We had to work with our contractor and that's what resulted in the most recent dates.

We did make a filing with FERC, and FERC's response is that -- I have to remember, because I just read it this morning -- but April 24th is when we need to have the project in operation, and we also in companion with that, we need to have our fish traps operational by the end of this year -- shortly thereafter. Excuse me.

COMMISSIONER JONES: I'm sorry. So you said you're reasonably confident of your budget. Now, the total estimated budget for this project in three phases is approximately 57 million. Correct?

THE WITNESS: Correct. And I'm very confident.

COMMISSIONER JONES: You're very confident.

THE WITNESS: Yes.

COMMISSIONER JONES: Have phases one and two tracked actual expenditures to budget pretty much on target?

THE WITNESS: Well, the project as a whole, it's very much on budget. When we had to reconfigure the project and reestablish the guaranteed contractual dates with the contractor, it set in motion a new schedule. And that negotiation took place after I filed my direct testimony. So I think my rebuttal testimony is the most current and accurate information, and as a whole, the project is on schedule and on budget.

COMMISSIONER JONES: In your rebuttal testimony you say this project has been approved by NOAA, U.S. Fish and Wildlife Service and the Washington Department of Fish and Wildlife.

THE WITNESS: Correct.

COMMISSIONER JONES: One last question on I think the last page of your rebuttal testimony. This relates more to the O & M expenses for Merwin and Swift. This is Swift, I think. You made a big reduction in the estimate of electricity use from like 776,000 down to 344,000.

THE WITNESS: Correct.

COMMISSIONER JONES: Why such a big difference?

THE WITNESS: Well, just to be honest, we got it wrong the first time.

This is a massive structure. It's about 170 long, 60-feet wide, has 12 pumps, that's trying to simulate a river and generate 600 cubic feet per second of water. We overestimated the extent that the loads within the entire structure would occur at the same time.

So it turned out after actual operation for, I believe we had eight months of actual, four in my rebuttal testimony, that the number of pumps that we needed to create the false river, if you will, was lower. The amount of diversity amongst the other loads within the structure was higher than expected. And then finally when we incorporated variable frequency drives to control the pumps, and so we were able to do -- achieve greater conservation of energy through the use of that equipment. And so we overestimated.

And, you know, I distinguish that from our other cost estimates, because this is a unique asset within our company. It's the first time that we had gone into operation. The other cost estimates we have are things that we're doing all the time. There are fish supplies, use of contractors to help us with our fish collection activities, and we're highly informed based on our knowledge of the other fish hatcheries that we operate on the Lewis River which are staffed by Department of Fish and Wildlife as our contractor. So we're well informed there. But we did miss the mark on the electricity, which is a good thing for customers. It's lower.

COMMISSIONER JONES: When I first read that, Mr. Tallman, I thought, boy, the retail price of electricity is going down.

THE WITNESS: Well, we have a contract so we are a retail customer of Cowlitz for this load, and so we have a contract, and it's subject to the normal tariffs.

COMMISSIONER JONES: Thank you.

That's all I have.

JUDGE MOSS: All right? Any redirect?

MS. WALLACE: Just a few questions. Actually, maybe just one.

But I do want to note that Mr. Dalley is here and available. He's both the director of regulation and revenue requirement, and he'd be happy to come back up and answer any questions about future periods and how pro forma capital additions are handled in other states.

REDIRECT EXAMINATION

BY MS. WALLACE:

Q. In your rebuttal, you update the cost of the Merwin fish collector on page 3, lines 12 through 13. The current cost production is actually about 220,000 less than the projection in the company's initial filing. Correct?

A. That's correct.

Q. And what percentage of those costs have already been paid as of today?

A. As of -- well, through July, it's been about 50 million. Through the end of the year, it will be about 99.8 percent of that 56.8 million, or 6 million.

Q. Thank you, Mr. Tallman.

JUDGE MOSS: Okay. Very good.

Something else, Ms. Gafken?

MS. GAFKEN: No more questions, but I believe that I failed to move my cross exhibits into the record.

JUDGE MOSS: All right. We will consider that you have done so now. Any objection?

MS. WALLACE: Yes, Your Honor.

JUDGE MOSS: What's the objection?

MS. WALLACE: To MRT-6C, the response to PC data request 70, I think you could probably tell from Mr. Tallman's responses that he wasn't the author of this response, and wasn't named as the sponsor as well, and this regards to McDougal's testimony and would have been more appropriately directed towards Mr. McDougal.

JUDGE MOSS: Right. Said the sponsor was to be determined, and it's a company response to a data request, and I can't see going through the exercise of having Mr. McDougal brought back to prove it up. Let's just overrule the objection. There will be admitted as marked.

MS. GAFKEN: I didn't refer to it during the cross-examination, but I would like to offer Exhibit MRT-5CX, also a data request.

JUDGE MOSS: All right. Yeah, I thought you were offering both of them. That's fine. Those are data requests responses from the company, and they are pertinent to the subject matter of the testimony, so they should they should be in the record. That fine.

With that, Mr. Tallman, we appreciate your time with us on the stand.

THE WITNESS: Thank you.

(Exhibit MRT-5C CX, MRT-6C CX were admitted.)

JUDGE MOSS: It looks to me like if we manage ourselves carefully, we should be able to finish with PacifiCorp's witness subject to the reserve we have on Crane and Ralston this afternoon. So I'm going to ask everyone to be cognizant of my goal as we call Mr. Stuver to the stand. I'm not saying we can't run past 5:00 a little bit.

MS. WALLACE: Before we start, Mr. Tallman be excused?

JUDGE MOSS: Yes.

DOUGLAS K. STUVER

Witness herein, having been first duly sworn on oath, was examined and testified as follow:

JUDGE MOSS: Please be seated.

Preliminaries?

MS. WALLACE: He doesn't have any corrections.

JUDGE MOSS: Mr. Stuver, public counsel has indicated ten minutes of cross for you.

Ms. Gafken, would you like to proceed?

MS. GAFKEN: Yes, Your Honor.

CROSS-EXAMINATION

BY MS. GAFKEN:

Q. Afternoon, Mr. Stuver.

A. Good afternoon.

Q. Please refer to your rebuttal testimony, Exhibit DKS-3T, page 3, lines seven through 14.

A. Okay.

Q. There you testify that PacifiCorp has funded the pension plan and other post retirement benefits in excess of expenses covered in rates. Correct?

A. Yes.

Q. The excess investment being such the balance in asset accounts exceeds the balance in liability accounts, which in turn means that PacifiCorp funded the pension and other post retirement obligations in excess of long-term liabilities for those benefits. Is that correct?

MS. WALLACE: I'm going to object to that question, because it has a couple of assumptions in it before we get to the ultimate question. If we could maybe break it down into parts, that might be helpful.

MS. GAFKEN: Sure.

JUDGE MOSS: Go ahead.

BY MS. GAFKEN:
Q. The excess investment means that the balance in asset accounts exceed the balance in liability accounts. Is that correct?
A. Yes.
Q. And does that in turn mean that PacifiCorp funded the pension and other post retirement obligations in excess of the long-term liabilities for those benefits?
A. Yes. I mean, maybe just to summarize, PacifiCorp has funded its pension plan in excess of its expense, and when you look at all of the assets and all of the liabilities on PacifiCorp's balance sheet, it's in a net asset position. That net asset position represents those excess contributions.
Q. Is the amount of those excess contributions approximately $237 million?
MS. WALLACE: Do you have a page reference perhaps?
MS. GAFKEN: Actually, it's a Mr. Coppola exhibit that I find easier to refer to, but it's SC-11 if you have that.
THE WITNESS: Yeah. And I'm familiar -- I'll refer to my own testimony as well -- that there's an exhibit that shows at a total company level the prepaid

pension asset is $237 million. The Washington allocated share of that prepaid pension asset is $13.3 million.

The other thing to note with that, though, is there are deferred tax liabilities that go against that prepaid pension asset, so there's approximately $6 million of deferred tax liabilities on a Washington allocated basis. So in total, if you net the deferred tax liabilities with the prepaid pension asset, it's approximately $7.4 million that's been added to Washington rate base related to this item.

BY MS. GAFKEN:

Q. The deferred taxes that you mentioned, is that for the pension benefits or the other derivative assets, or both?

A. This is specific to the pension and post retirement benefits. And the reason for that is you're only able to deduct for tax purposes what you've contributed, so to the extent that you've contributed some amount different than what you've expensed, there will be a different -- a deferred tax balance arises from that.

Q. Would you clarify your last answer?

A. Sure. So in terms of the deferred taxes, I was explaining why that's relevant in terms of a rate base adjustment. And it's actually a net reduction to rate base that the deferred tax piece contributes.

What happens is for tax purposes you're able to deduct what you contribute to the pension plan, and because we've contributed in excess of what we've been able to expense, we have a prepaid balance on our books. That in turn has created a deferred tax liability. So we're netting the deferred tax liability and the prepaid pension asset as we arrive at what the appropriate amount should be in Washington rate base.

Q. And, I'm sorry, that doesn't apply to the derivative, the other derivative assets, just the pension, the prepaid pension?

A. The derivative assets, along with the regulatory assets that go with the derivative assets -- let me think about that for a second.

So I think the answer there is the derivative assets themselves have not gone through the income statement. We've created no taxable income related to these derivative accounts, the reason being that we get regulatory accounting treatment for the derivative activity, so that there's no real tax impact, per se, for those derivatives.

Q. Please refer back to your rebuttal testimony, DKS-3T, page 4, line 11.

A. Okay.

Q. There you point out that Mr. Coppola stated that PacifiCorp reclassified 45 accounts in the working capital calculation. Is that correct?

A. Yes.

Q. Do you dispute that 45 accounts were reclassified in the working capital calculation?

A. I guess it depends on your definition of "accounts." We have FERC accounts and we have general ledger accounts; the general ledger accounts that are what Mr. Coppola is referring to. The number of FERC accounts is much fewer. I believe it's roughly seven that were affected.

Q. So seven FERC accounts were reclassified?

A. Roughly, yes.

Q. Do you know if there were 45 general ledger accounts that were adjusted?

A. I believe that count is approximately correct.

I guess one thing I'd like to add on the reclassification. Mr. Coppola took the position that current assets and current liabilities were the sole items that would qualify as working capital. And our view is that -- and I believe staff supports and has actually created this view or method that the commission endorses, which is that you're not, per se, trying to identify specific and only current assets and current liabilities, you're trying to identify which assets and liabilities have utilized investor capital to fund those activities, and that that is in turn creating a financing need on the company, or the cost to the company, and that's what we're seeking to be reimbursed for.

Q. Is it the company's position that deferred assets or noncash assets should be included in the working capital calculation?

A. Can you clarify what you mean by "deferred assets"?

Q. Deferred assets on the books of the company.

A. I'm sorry. Can you point me to what deferred assets specifically you're referring to?

Q. Yes. For example, FERC account 182.3.

MS. WALLACE: Could you tell me what you're looking at?

MS. GAFKEN: This is a DR response that's not in the record. It's a DR response to public counsel data request 74.

MS. WALLACE: Thank you.

THE WITNESS: I have that in my direct exhibits as well, so I know which account you're referring to.

So 182.3 is regulatory assets. Those comprise a variety of items. They are items that are generally already receiving a return, some investment return, and therefore we do not classify those items as part of investor-supplied working capital.

Our position there is that if the asset already is earning a return through some carrying charge, then there's not a basis to also include it in rate base and effectively, you know, earn a second return on that.

BY MS. GAFKEN:

Q. So I think I understood you to say that if an item already earns a return, that it's not included in a working capital calculation, so you don't then earn a return on it through the rates. Do I understand correctly?

A. Mostly, yes. What I was saying is if there's an item that's already earning interest, or earning a return such as a regulatory asset with a carrying charge, we don't consider that an item that should be part of investor-supplied working capital, because by counting it as investor-supplied working capital it would be in rate base and in turn would earn a return.

Q. So pension investments that are earning a return, is that not how you think of earning a return?

A. I think we're talking about two different things when we talk about pension investments. I mean, we're talking about a prepaid pension asset, which that is money that the company has funded to a separate trust, that trust then invests the money and that is apart from the company's activity.

The company's activity really with pensions consists of two things. We have the expense that we incur on the books, and we have the contributions. The prepaid pension asset is really the difference between those, meaning the contribution that has been made in excess of expense.

I'll just add too that when you talk about the pension returns, those pension returns affect both the contribution level of the company in the future as well as the pension expense of the company in the future. So it affects both parts of the equation. In other words, it affects the expense and the contribution level and nets out.

Q. The prepaid assets, the contributions, those do earn a return?

A. No. There is zero interest income on the company's books related to our prepaid pension asset. It is a nonearning asset on the company's books today. In fact, that's how we discovered the need to make this adjustment, was in comparing our regulated returns to our financial returns, trying to identify sources of those differences, this item was one of the things that was revealed in that process.

Q. Just to be clear -- I apologize, I caught a cold on Friday. Bad timing.

Just to be clear, the pension assets go into pension funds?

A. Well, we may be mixing terms here. The company's cash is contributed to a pension trust. Within that pension trust the money is then invested in stocks and bonds. So it doesn't -- it doesn't become a pension asset until it comes out of the company's funds and goes into the pension trust.

Q. What's the timing of that happening?

A. We make contributions to our pension trust generally in the first eight months of the year on a somewhat ratable basis each month.

Q. Are assets in the pension trust shown on the company's books?

A. No, they're not. We show on the company's books an accrual representing the underfunded position of the plan, and we show a regulatory asset on the company's books. The net of those represents the prepaid pension asset.

MS. GAFKEN: Thank you, Mr. Stuver. I have no further questions.

JUDGE MOSS: Anything else from the bench for

Mr. Stuver?

Okay. Mr. Jones?

COMMISSIONER JONES: Good afternoon, Mr. Stuver.

THE WITNESS: Good afternoon.

COMMISSIONER JONES: In general, do you still prefer a lead-lag approach versus investor-supplied working capital as a more accurate gauge of working capital to be included in rate base?

THE WITNESS: You know, in general, I would say yes. The lead-lag method itself, though, does not directly quantify the prepaid pension asset. So if we were to apply the lead-lag, there would be the lead-lag and then there would be a separate item that we would seek to include in rate base for the prepaid pension.

COMMISSIONER JONES: No. I'm just talking about the accuracy of determining working capital to be included in rate base.

THE WITNESS: We do the lead-lag in five of our six states, and this is our preferred.

COMMISSIONER JONES: Right.

THE WITNESS: We've adopted the investor-supplied working capital in this case because in the last order that was what we understood as the commission preference for computing investor-supplied working capital.

COMMISSIONER JONES: Right. I've gone back to our 2006 order. I don't think there was a preference in that order, we were agnostic about it, but we did want you to refine your studies in both instances and bring them to us.

THE WITNESS: Commissioner, if I could add. I think it was in the 2010 case that I was referring to.

COMMISSIONER JONES: Okay.

THE WITNESS: I've got some specific language if you'd like.

COMMISSIONER JONES: That's all right. I think I remember that one too. But I went back to look at the '06 order, but I will review the 2010 order as well.

Can you go to DKS-2. Do you have that in front you have? The spreadsheet, these adjustments to the working capital calculation, I just have a couple of questions on the spreadsheet.

THE WITNESS: Okay.

COMMISSIONER JONES: First of all, this is a very big number, system-wide, the incremental addition to rate base. Do I read this properly, it's either $493 million or $369 million system-wide, is that correct, on an ISWC basis?

THE WITNESS: That's correct. 493.

COMMISSIONER JONES: What is the difference between those two numbers, where you see adjusted balances and then incremental increase to rate base? What is the difference between those two line items?

Do you see where I am?

THE WITNESS: Not yet.

COMMISSIONER JONES: Okay. In the top box, where you go through OPEB, and derivatives, and then you have the current asset column, the current liability, investments, invested capital column, then you have a column called ISWC.

THE WITNESS: Can I hold up a page and see if we're on the page 1?

COMMISSIONER JONES: Yes. That's it.

Can you find the column ISWC?

THE WITNESS: Yes.

COMMISSIONER JONES: If you get to the bottom there, aren't there two numbers, $493 million, $369 million, roughly?

THE WITNESS: Right.

COMMISSIONER JONES: Those are big numbers. Are those system-wide numbers? Am I reading those correctly, that this is the impact on rate base system-wide?

THE WITNESS: Right. The 493 is the system-wide number, and then when that gets allocated to Washington it becomes 28.5.

COMMISSIONER JONES: What's the difference, just for my reference, between the 28.5 and the 21.5 that you see impact to Washington?

THE WITNESS: The very top number, that's the amount before we're proposing any adjustments. So basically in this case we've adopted the method that was used in the 2010 case with all of the same classifications of the numbers as what appeared in the 2010 case, but we've made certain reclassifications, and that's what the $20.8 million represents are the reclassifications from what was ordered in the 2010 case. So what we've tried to do is --

COMMISSIONER JONES: Okay.

THE WITNESS: You follow that?

COMMISSIONER JONES: I think I understand.

Just the last question with regards to the -- and you may have answered this already in terms of FERC Form 1. And it's this difference I'm trying to reconcile between, quote, current and noncurrent issues.

We generally at the commission has used FERC Form 1, the Uniform System of Accounts, in regulatory accounting.

THE WITNESS: Yes.

COMMISSIONER JONES: But here we appear to be departing from that. And I know you've reached agreement with staff on this, but I'm just trying to get a sense of why the Uniform System of Account Standards are not appropriate for these two particular -- at least for the OPEB items, for the pension-related items.

THE WITNESS: Sure.

Actually, in my opinion we haven't departed from the FERC Uniform System of Accounts. You know, what we have done is take our FERC balance sheet and just look at each of the assets and liabilities on our FERC balance sheet and assign them either to investments, current assets, current liabilities, or invested capital. So, you know, all we have done really is take, as presented on our FERC balance sheets, certain amounts that we believe in the last case were misclassified and correct those classifications in this case.

COMMISSIONER JONES: Okay. Thank you.

JUDGE MOSS: Okay.

Redirect?

MS. WALLACE: Just a few clarifying questions.

REDIRECT EXAMINATION

BY MS. WALLACE:

Q. Mr. Stuver, Ms. Gafken asked you a question earlier whether pension assets exceed long-term liabilities. To clarify, PacifiCorp's pension funds are

not currently overfunded. Correct?
A. Correct. We're actually underfunded. And, actually, by over $300 million.
Q. And when PacifiCorp makes the contributions to the pension fund, once that money is in the pension fund, it is for the sole benefit of the retirees. Correct?
A. Correct. It's no longer part of the company's funds.
Q. And it can't be returned to the company?
A. No.
Q. When it earns a return as part of the pension fund, that return also goes to the benefit of the retirees. Correct?
A. Correct.
Q. And I think we have some confusion about things being reclassified. When we're talking about investor-supplied working capital, we have two kinds of classifications, don't we? We have the FERC Uniform System of Account classifications?
A. Right.
Q. And then we have classifications within the investor-supplied working capital model. Is that correct?
A. Yes. We take balances in our FERC accounts and

we assign them to the different categories within the investor-supplied working capital model.

Q. And when you take the account and assign it within a certain category in the investor-supplied working capital model, that doesn't mean that the FERC accounting classification changes. Correct?

A. Correct.

Q. It remains the same?

A. Yes.

MS. WALLACE: I think that's all I have.

Thank you very much.

JUDGE MOSS: All right. That would appear to bring your testimony, Mr. Stuver, to a conclusion, for the time being at least, so you may step down.

That took a little longer than I anticipated. I have calculated here that we have about three to three and a half hours of cross-examination remaining. We have to come back tomorrow anyway. Would you all prefer to stop now or continue on for a few minutes? We could take another 30 to 40 minutes I think to finish these last two company witnesses. What's your preference?

CHAIRMAN DANNER: We can do Steward in five it looks like.

JUDGE MOSS: Well, that's predicted. There was ten minutes predicted for this witness and it took 30.

We're going to go ahead and break now.

So maybe the most efficient thing to do, because Mr. Ralston will be contacted by telephone, and he's an hour ahead of us, we can have him first, and then we'll take up the Crane dispute and do whatever we need to do there. Following that, we'll have Wilson and Steward from the company, and then we will launch into the staff witnesses after that.

Okay? Good game plan?

Any last-minute business, Mr. Purdy?

MR. PURDY: Yes, Your Honor. Is it still your anticipation that the final panel, Mickelson, Steward, Eberdt, Daeschel, would go on roughly at 3:00?

JUDGE MOSS: I'm thinking mid-afternoon is probably a likely time for that. Mr. Eberdt has got some conflict in the morning, doesn't he?

MR. PURDY: He does. He's available at 3 and after.

JUDGE MOSS: We'll work that out. We'll make it work.

Anything else?

Let's reconvene at 9:30 tomorrow morning. See you then. Have a pleasant evening.

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C E R T I F I C A T E

STATE OF WASHINGTON
COUNTY OF KING

I, SHERILYNN V. McKAY, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript, taken on August 26, 2013, is true and accurate to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal October 7, 2013.

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SHERILYNN V. McKAY, RMR, CRR, CCR 3236