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1 BEFORE THE WASHINGTON STATE

2 UTILITIES AND TRANSPORTATION COMMISSION

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WASHINGTON UTILITIES AND )

4 TRANSPORTATION COMMISSION, )

)

5 Complainant, ) Docket Nos. UE-140762

v. ) and UE-140617

6 ) (Consolidated)

PACIFIC POWER & LIGHT COMPANY, )

7 )

Respondent. )

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9 HEARING - VOLUME V

10 Pages 373-663

11 ADMINISTRATIVE LAW JUDGE DENNIS J. MOSS

COMMISSION CHAIRMAN DAVID DANNER

12 COMMISSIONER JEFFREY GOLTZ

COMMISSIONER PHILIP JONES

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1 JUDGE MOSS: Let's be on the record.

2

3 R. BRYCE DALLEY, witness herein, having been first

4 duly sworn on oath, was examined and

5 testified as follows:

6

7 DIRECT EXAMINATION

8 BY MS. WALLACE:

9 Q Good morning, Mr. Dalley.

10 A Good morning.

11 Q Could you please state and spell your name for the

12 record?

13 A Bryce Dalley; B-R-Y-C-E, D-A-L-L-E-Y.

14 Q And do you have any corrections to your prefiled

15 testimony in this case?

16 A I do not.

17 Q Mr. Dalley is available for cross-examination.

18 JUDGE MOSS: All right. Let me see

19 here. For Mr. Dalley, we have Mr. ffitch. You have

20 indicated that you have 20 minutes or so.

21 MR. FFITCH: Yes, your Honor.

22 JUDGE MOSS: Please proceed.

23 MR. FFITCH: Thank you.

24

25

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1 CROSS-EXAMINATION

2 BY MR. FFITCH:

3 Q In this case, PacifiCorp is proposing to include a

4 pro forma adjustment that escalates the actual historic test

5 year nonlabor O&M and administrative and general expense

6 accounts by applying IHS Global Insight indices; is that

7 correct?

8 A Yes.

9 Q And the Company uses this approach in its

10 jurisdictions where a future test year period is employed;

11 is that correct?

12 A It's correct. We've used this in California,

13 Oregon, Wyoming, and Utah.

14 Q Has the approach, the use of the Global Insight

15 indices, been approved in any of the Company's cases in

16 Washington or other jurisdictions where the rates are

17 established based on a historic test year period?

18 A It hasn't to my knowledge been approved for use

19 here in Washington.

20 The Company is looking for ways to better reflect

21 costs during the rate effective period, and this is one of

22 the proposals the Company has put forth as part of this case

23 to better enable the Company to better recover the cost for

24 the rate year.

25 Q All right. And the approach is also not used in

0383

1 Idaho, correct?

2 A It hasn't been used yet in Idaho. We haven't had

3 a rate case there since 2011. It is a consideration. It's

4 something that we may propose in a future case there in

5 Idaho.

6 We also -- the Idaho test period convention,

7 although it may not differ substantially from Washington, is

8 a little bit different. There are different adjustments

9 that are included as well as different mechanisms available

10 to the Company.

11 Q Okay. But just to sum up so far, the speculation

12 approach using the global indices -- excuse me, Global

13 Insight indices is not employed in states where there's no

14 future test year for Pacific at the present time?

15 MS. WALLACE: Objection. Asked and answered.

16 JUDGE MOSS: You can go ahead and answer it.

17 THE WITNESS: I think I made it clear we

18 haven't used it in Washington. It's a new proposal that

19 we've brought forth to this Commission in this case as a way

20 to better reflect the costs for the rate effective period.

21 Q (By Mr. ffitch) All right. Has Pacific Power

22 conducted any analysis demonstrating that the nonlabor and

23 nonfuel O&M, operation and maintenance, and administrative

24 and general expenses incurred by the Company have

25 historically increased at a level that is consistent with

0384

1 the Global Insight indices?

2 A Well, a couple of points I'd like to make is that

3 first --

4 Q Before you make your points, could you just answer

5 the question whether the Company has conducted any analysis

6 on that issue?

7 A I'm trying to answer the question, Mr. ffitch.

8 In looking at the Company's cost levels that have

9 been reflected in rates, I believe in my testimony I discuss

10 extensively how the revenues and rates have not been

11 adequate to cover our costs.

12 And so as we evaluated how to better reflect costs

13 for the rate effective period in this proceeding, we put

14 forth a proposal of IHS Global Insight escalation as a way

15 to better reflect those costs and give the Company a more

16 reasonable opportunity to recover the costs during the rate

17 effective period.

18 So the analysis that I have conducted and looked

19 at are what the Company's recovery levels have been in prior

20 periods. And those have been insufficient to -- for the

21 Company to cover the costs of serving customers.

22 Q So are you testifying that the Company has

23 conducted an analysis or a study demonstrating that the

24 expenses have historically been increasing at the same rate

25 as the escalation factors from IHS?

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1 A What I'm testifying to is that the cost levels

2 reflected in rates have been inadequate to cover the cost of

3 serving customers. And that's why we put forth the proposal

4 as part of this case.

5 JUDGE MOSS: Mr. Dalley, I don't find that

6 responsive to his question.

7 THE WITNESS: Could you repeat the question.

8 Q (By Mr. ffitch) Has Pacific Power conducted any

9 analysis or study or has the Company had any analysis or

10 study performed for it demonstrating that the nonlabor O&M

11 expenses have historic -- and the nonfuel A&G expenses have

12 historically been increasing at the similar rates as the ISH

13 escalation factor?

14 A Specifically to your question, we have not.

15 But what I would like to point out is that the

16 cost levels that we have reflected in rates have not been

17 sufficient to cover the costs of serving our customers.

18 Q And that's your testimony in this case.

19 But other than that discussion or analysis in your

20 testimony, there is no analysis or study in the record

21 demonstrating that those costs historically increase at the

22 same rate as the IHS escalation factor, is there?

23 A I don't know if there is on the specific

24 components, but there's clear demonstration in the record

25 that the overall cost levels and the revenue requirement for

0386

1 the Company is increasing.

2 Q But you just said that no study was --

3 JUDGE MOSS: Mr. ffitch, I think you have

4 your answer. Let's move on.

5 MR. FFITCH: Thank you, your Honor. Those

6 are all the questions I have.

7 JUDGE MOSS: Thank you very much. Then we

8 have Boise White Paper has indicated about ten minutes. Go

9 ahead.

10 MS. DAVISON: Thank you, your Honor.

11 CROSS-EXAMINATION

12 BY MS. DAVISON:

13 Q So Mr. Dalley, can we take from your testimony

14 that if the IHS escalation factor is adopted that you won't

15 be up for annual rate cases?

16 A No. I don't believe that's my testimony.

17 Q Thank you.

18 I'd like you to turn to Cross Exhibit 10.

19 Do you have that? It is --

20 A It's the new one?

21 Q Yes, it's the supplemental. And it's in response

22 to Public Counsel Data Request 130.

23 A I have that here. I just want to be clear. Is it

24 the original response to Public Counsel Data Request 130 or

25 is it the supplemental?

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1 Q Supplemental.

2 A Okay.

3 Q And if you look at your response to Question B,

4 you've stated that for projects, you're referring to capital

5 projects that have been placed in service between the date

6 of the rebuttal filing through the effective date, the

7 Company is willing to limit the amount included in this case

8 to the lower of actual costs or the amounts included in the

9 rebuttal testimony.

10 Does that remain the Company's position?

11 A I'm confused. I thought we were on the

12 supplemental response.

13 I believe that's the original response.

14 Q Oh, I don't know. We've had so many supplemental

15 responses --

16 A I want to make sure we're on the same page.

17 Q -- from PacifiCorp, I've got to tell you that it's

18 been a real nightmare to keep up with all the supplementals.

19 A Well, I believe my understanding is RBD-10X

20 includes the Company's original response to Public Counsel

21 Data Request 130. That's what I have as kind of page 1 and

22 2.

23 After that I have the Company's response, first

24 supplemental response to that same question.

25 CHAIRMAN DANNER: I don't believe our

0388

1 notebooks have the original response.

2 JUDGE MOSS: It's not entirely clear to me

3 what we have here.

4 MS. DAVISON: We got a lot of late

5 supplemental responses. I apologize.

6 CHAIRMAN DANNER: The only thing we have here

7 is the supplemental that has the date of December 11, 2014.

8 MS. WALLACE: The original one was included

9 as NCS-18CS, I think.

10 THE WITNESS: Yes.

11 JUDGE MOSS: But this is what we were handed

12 yesterday as 10CS.

13 MS. WALLACE: It didn't include the original

14 section that had been moved. My apologies for that. I can

15 bring that page up if that's helpful.

16 JUDGE MOSS: Yes, I think that would be

17 helpful.

18 MS. WALLACE: This is the original.

19 Q (By Ms. Davison) So, Mr. Dally, despite the

20 confusion about the original vs. supplemental response, does

21 it remain the Company's position that for capital

22 expenditures post-rebuttal filing you're not seeking

23 recovery of?

24 A I appreciate the opportunity to clarify this, and

25 I want to make sure that it's clear on the record what the

0389

1 Company's position is on this important issue.

2 So in the Company's original response to Public

3 Counsel, we stated we'd be willing to limit the amount of

4 capital projects to those placed in service and known and

5 measurable at the time rates become effective, which is

6 March 31, 2015 in this case.

7 And in an effort to limit the number of litigated

8 items at this hearing, we provided a supplemental response

9 and updated the issues list on December 11, which modified

10 that position to identify only the capital additions that

11 are in service and serving our customers as of the time of

12 our rebuttal filing, which is November 14, 2014.

13 And so the Company's first supplemental response

14 to that same data request outlines the Company's proposal

15 and the impact that proposal has on the company's rebuttal

16 position, which is a 1.5 million dollar reduction.

17 Q Thank you. That's very helpful.

18 So just -- I don't mean to belabor the point, but

19 just so it's clear, if it's not used and useful

20 post-rebuttal, it's not going to be included in the case; is

21 that correct?

22 A For purposes of this case, that's the Company's

23 position.

24 Q Thank you.

25 A Originally we had noted that all projects that

0390

1 were through the rate effective date should be included, but

2 we modified the position.

3 Q Thank you.

4 If you turn to your testimony RBD-1T, at page 5,

5 beginning on line 6, you state that, "In PacifiCorp's other

6 jurisdictions, the Company's cost control measures and

7 availability of alternative ratemaking mechanisms have

8 allowed the Company to recover the costs to serve its

9 customers."

10 Is that a correct statement?

11 A Yes.

12 Q And are you excluding what is known as the MSP

13 Utah hole as a result of roll-in?

14 A Could you be more specific?

15 I'm not sure I understand the question.

16 Q Well, you're saying that in all the other

17 jurisdictions you're able to recover all your costs,

18 correct?

19 A No. I don't believe we said that, or it says that

20 in this testimony.

21 Q Okay. So it's not your position that you're

22 recovering all your costs in all your other jurisdictions?

23 A I think to be clear, we are closer to covering the

24 cost of serving our customers in other jurisdictions than we

25 are here in Washington.

0391

1 I don't think it says that we're recovering all of

2 our costs in all of our states.

3 Q Okay. And is it your testimony that alternative

4 ratemaking mechanisms have not been made available to you in

5 Washington?

6 A We don't have the same mechanisms here in

7 Washington that we have in some of our other states. That

8 is true.

9 Q But is it your testimony that no alternative

10 ratemaking mechanisms have been available in Washington?

11 A I don't believe that's the case.

12 I believe that there is a mechanism for deferring

13 costs associated with new resources that comply with the

14 greenhouse gas provisions in this state, and we've used that

15 in the past.

16 Q And to follow up from the discussion yesterday,

17 you have various forms of PCA's in all your jurisdictions

18 except Washington; is that correct?

19 A Yes.

20 Q And isn't that true in all the jurisdictions that

21 you have these mechanisms in place that you have sharing

22 bands, dead bands, earnings tests, a variety of measures to

23 make the mechanism more balanced?

24 A No. That's not the case.

25 In California we have a mechanism that allows for

0392

1 dollar for dollar recovery.

2 Q But that's the only one; is that correct?

3 A Yes.

4 Q And there was discussion about the 2013 GRC in

5 which a PCAM was made available to the Company, but isn't it

6 correct that you rejected it because of dead bands and

7 sharing mechanisms?

8 A Could you repeat the question?

9 Did you say the 2013 case?

10 Q Yes.

11 A It was made available? I'm not sure I understand.

12 Q Well, through, you know, various processes we've

13 had a lot of discussions with the Company about PCA. And

14 it's my understanding that the Company has rejected that

15 proposal in Washington due to deadband sharing mechanisms,

16 earning tests, that kind of thing?

17 A I wouldn't say the Company has rejected it.

18 The Company put forth a proposal to this

19 Commission as part of the last rate case asking for a power

20 cost adjustment mechanism. The proposal that the Company

21 outlined was not supported by other parties, and ultimately

22 rejected by the Commission.

23 And we've proposed -- we took that information, we

24 took that feedback and Commission order back, and evaluated

25 what proposal we could come back with as part of this case.

0393

1 And we modified our case. What we have here is

2 not a PCAM. We've requested a renewable resource tracking

3 mechanism which addresses the renewable volatility of

4 intermittent renewable resources here in the region eligible

5 for the EIA, and believe that's an appropriate mechanism to

6 capture that volatility that exists.

7 So as part of the direct feedback from the

8 Commission in the last case, we've submitted that proposal

9 as part of this case.

10 Q And that takes care of your concern about a lack

11 of PCA in Washington?

12 A I think it alleviates concern about the volatility

13 of renewable resources. And I think everyone can agree that

14 the environmental landscape is changing here in Washington

15 and the region and even nationally, and believe that this

16 mechanism will provide the Company an opportunity to recover

17 the costs associated with compliance with those rules and

18 regulations.

19 Q So did I get a yes out of that?

20 A I think my answer is that the RRTM, or renewable

21 resource tracking mechanism, isn't a PCAM, but it addresses

22 volatility, some of which was included in the PCAM.

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

24 questions.

25 JUDGE MOSS: Thank you. Any redirect?

0394

1 MS. WALLACE: Yes, your Honor.

2 RE-DIRECT EXAMINATION

3 BY MS. WALLACE:

4 Q Mr. Dalley, Ms. Davison was just asking you a few

5 questions about the Company's so-called rejection of PCAMs

6 with shared and deadbands in Washington.

7 Do you recall whether or not the Company proposed

8 a PCAM with -- that was similar to Avista's PCAM, including

9 sharing bands and deadbands in its 2006 rate case?

10 A Yes. I'm familiar with that.

11 The Company did -- the issue of PCAMs -- I think

12 it was brought up yesterday by Commissioner Jones -- has

13 been debated before this Commission a number of times. I

14 believe in the 2006 general rate case the Company brought

15 forth a proposal that was similar to Avista's. I believe

16 that mechanism was rejected.

17 Q And in 2005 the Company proposed a mechanism with

18 deadbands and sharing bands as well, correct?

19 A Yes. It's my understanding there was a mechanism

20 proposed in that proceeding as well; although that mechanism

21 was also rejected because I believe it had to do with the

22 allocation methodology and whether or not there was an

23 approved allocation methodology in this state.

24 Q And the only other state with both deadbands and

25 sharing bands is Oregon, correct?

0395

1 A That is correct.

2 Q And in Wyoming, Idaho, and Utah there's just

3 sharing bands ranging from 70/30 to 95/5, correct?

4 A I believe it's 70/30 and 90/10.

5 MS. WALLACE: Thank you, Mr. Dalley.

6 JUDGE MOSS: Questions from the Bench?

7

8 QUESTIONS FROM THE COMMISSIONERS

9 COMMISSIONER GOLTZ: Mr. Dalley, a few

10 questions.

11 So in your oral testimony, you used the term

12 "costs" quite a bit. And I want to know exactly what you

13 mean by that.

14 When you say you can't recover your costs,

15 are you saying that the Company is losing money?

16 THE WITNESS: Well, when I say "costs," I'm

17 referring to costs of service, which includes both the cost

18 of providing -- covering our power costs O&M, A&G, as well

19 as providing a reasonable return.

20 COMMISSIONER GOLTZ: I understand why others

21 that might read your testimony could think you're saying

22 that you're losing money, because I think in normal

23 parlance, I think when you say "I'm not recovering my

24 costs," it means you're losing money.

25 And that's not your testimony?

0396

1 THE WITNESS: Yeah. No.

2 I'm trying to say that the Company's cost of

3 providing service includes all the elements of revenue

4 requirement, one of which is a reasonable return on its

5 investment.

6 COMMISSIONER GOLTZ: So it's more accurate to

7 say you don't believe you're able to cover your costs and

8 recover your authorized rate of return?

9 THE WITNESS: Yes.

10 COMMISSIONER GOLTZ: Also when you use the

11 term "costs," are you referring to cost per books or

12 something else?

13 THE WITNESS: Generally per books.

14 But I know there was some maybe

15 misunderstanding or confusion in the last rate case, so I

16 wanted to make sure my testimony this year that I note all

17 the ways we record it here in Washington.

18 So I reported our earnings, our ROE, on both

19 per books restated and pro forma basis.

20 COMMISSIONER GOLTZ: But orally this morning,

21 in response to questions from Mr. ffitch, you said we aren't

22 recovering our costs. Do you mean per books cost or do you

23 mean something else?

24 THE WITNESS: I think I mean our actual costs

25 of providing service. So --

0397

1 COMMISSIONER GOLTZ: But you calculate that

2 by per books or do you calculate that in some other way?

3 THE WITNESS: I guess we do it in multiple

4 ways. The per books stated and pro forma, in each of those

5 we're not earning our full authorized return, which I

6 believe is a cost of providing service.

7 COMMISSIONER GOLTZ: But normally when you

8 refer to the term costs, you're talking about year per books

9 cost; is that correct?

10 THE WITNESS: Yes, our actual costs. That's

11 where we start. Any way we calculate it you start with your

12 actuals, yes.

13 COMMISSIONER GOLTZ: So let me ask you a

14 couple of other things, and if you want to push these over

15 to Mr. Duvall, that's fine.

16 So there's some questions about whether or

17 not -- why the Company did not propose a power cost

18 adjustment mechanism or PCAM.

19 And you said instead you're proposing -- the

20 Company is proposing a renewable resource tracking

21 mechanism.

22 And you were here yesterday, as I recall, and

23 heard the cost of capital witnesses and cap structure

24 witnesses discuss the fact that apparently Wall Street

25 credit analysts are concerned about the fact that the

0398

1 company does not have a PCAM; is that correct?

2 THE WITNESS: Yes.

3 COMMISSIONER GOLTZ: So if we were to approve

4 a renewable resource tracking mechanism, would there still

5 be that Wall Street concern that this is just a little bit,

6 not very much, not robust, it's not a full PCAM?

7 Are we still going to see the credit analysts

8 dinging the Commission for not approving a PCAM if this is

9 what's approved?

10 THE WITNESS: I think this alleviates a

11 substantial concern that the community may have.

12 Mr. Williams can speak to it more than I can.

13 But it does address volatility and it does address the fact

14 that additional renewables are being added to the system,

15 whether they're company resources or purchased power

16 agreements. And it addresses that volatility that's out of

17 the Company's control.

18 We'll also note that I know that Staff has

19 provided a PCAM proposal as part of this case. And I don't

20 think that the renewable resource tracking mechanism and

21 PCAM, the two -- I don't believe that they're mutually

22 exclusive. I think they could work together.

23 And in fact in Oregon we have, as Ms. Davison

24 alluded to, have a mechanism, a PCAM, that has some of the

25 elements that this Commission has noted that it would like

0399

1 to see in that type of proposal. But we're also seeking a

2 renewable resource tracking mechanism there that can work in

3 conjunction with a PCAM.

4 So I don't believe it's one or the other. I

5 think they work together.

6 And to answer your question directly, I

7 believe it does alleviate some of the concerns of the

8 volatility that the Company faces with respect to its power

9 cost.

10 COMMISSIONER GOLTZ: But this renewable

11 resource tracking mechanism isn't something you discussed

12 with the Wall Street people that we all seem to be concerned

13 about?

14 THE WITNESS: I have not talked to anybody on

15 Wall Street about it.

16 I don't know if Mr. Williams has.

17 But it's a way to address an element of our

18 power costs that's very specific to renewable policies here

19 in the state and in the region. And I believe it would

20 alleviate some of their concerns.

21 COMMISSIONER GOLTZ: So also one of the

22 things you mentioned in your testimony about that other

23 jurisdictions have, is a rate plan. But you're not

24 proposing a multiyear rate plan in this case?

25 THE WITNESS: We are not.

0400

1 COMMISSIONER GOLTZ: Did you consider

2 proposing a multiyear rate plan?

3 THE WITNESS: We would like to. I think

4 that's something we've been able to do in other

5 jurisdictions.

6 COMMISSIONER GOLTZ: And we have multiyear

7 rate plans with other electric IOU's in this state, correct,

8 or we have had in this state, correct?

9 THE WITNESS: Yes, I understand that. We

10 follow those closely. We monitor them.

11 And I think we'd like to get to a place where

12 we don't have annual rate cases. We've been part of a

13 number of cases here in the state. I've been involved, at

14 least on the Pacific Power side here, since at least 2011.

15 So I've seen and been a part of a number of these.

16 I think as we evaluate whether or not we

17 could propose some type of multiyear plan, we've got to get

18 to a level of cost recovery that is closer to our authorized

19 to enable kind of a smaller change year over year.

20 I think if you look at the mechanisms for the

21 other IOU's here in this state, the multiyear plans provide

22 pretty modest increases in the years subsequent to where the

23 rate case was filed. And there's no question that in this

24 case it's a pretty substantial increase.

25 So getting our revenue requirement up to a

0401

1 level that allows us to cover our costs first, I think is

2 the objective as part of this case. But we're not opposed

3 to looking at multiyear rate plans in the future and have

4 been able to accomplish those in other states.

5 COMMISSIONER GOLTZ: And the ratemaking

6 mechanism that I note that I believe you have in other

7 states is decoupling. You have that in place in other

8 states; is that true?

9 THE WITNESS: No.

10 COMMISSIONER GOLTZ: You don't have it in

11 Oregon?

12 THE WITNESS: No.

13 COMMISSIONER GOLTZ: But we have it here with

14 both of our other electric IOU's, correct?

15 THE WITNESS: Yes.

16 COMMISSIONER GOLTZ: And we also see the

17 credit analyst reports comment favorably on decoupling

18 mechanisms?

19 THE WITNESS: Yes, that's correct.

20 COMMISSIONER GOLTZ: So why didn't the

21 Company propose a decoupling mechanism?

22 THE WITNESS: We're evaluating that. I think

23 we're open to decoupling and trying to understand that more.

24 When we filed this case the Avista proposal

25 was pending.

0402

1 There's also some controversy, as we know

2 now, in the Puget decoupling proposal and that package of

3 ratemaking elements that's here before the Commission. So

4 we're evaluating those mechanisms and how they work.

5 I think Staff also addresses it in their

6 testimony in this case, that it can be controversial and

7 that there's other ways to address some of the concerns that

8 decoupling addresses.

9 And the proposal the Company's made in this

10 case go after some of those issues, which are providing

11 better fixed cost recovery, and we've done that through the

12 proposal and the customer charge.

13 But we're not opposed to necessarily a

14 decoupling mechanism. And now that the Avista proposal has

15 been approved, we're going to monitor that, see how it kind

16 of plays out, but haven't put forth that proposal as part of

17 this case.

18 COMMISSIONER GOLTZ: So I guess what I'm

19 getting at is in your testimony on page 5 -- so Exhibit

20 RBD-1T page 5, lines 6 through 9, you seem to make a point

21 -- you seem to be critical of the Washington Commission that

22 we aren't adopting ratemaking mechanisms that are beneficial

23 to the Company.

24 And there's at least three: The PCAM, a rate

25 plan, and decoupling that you consciously, I assume, decided

0403

1 not to put forward in this case. So I feel that -- I mean,

2 correct me if I'm wrong, but I read this as being critical

3 of the Commission for not having ratemaking mechanisms, but

4 yet you're not putting forward the very sort of ratemaking

5 mechanisms that you find desirable. Am I wrong?

6 THE WITNESS: We're trying to put forth

7 proposals that work for PacifiCorp. And each of the

8 utilities in this state are different. Each face different

9 challenges.

10 So I think mechanisms that exist today aren't

11 necessarily one size fits all. Even the mechanisms that

12 exist between the other IOUs in the state aren't the same.

13 So we've made proposals as part of this case

14 that we believe address PacifiCorp's concerns. Some of

15 those, like the renewable resource tracking mechanism, the

16 adjustment to the fixed residential charge, I believe are

17 mechanisms or elements that would enable the Company to more

18 appropriately cover its costs.

19 And so we're trying to put forth proposals

20 that meet PacifiCorp's needs. And we're not opposed to

21 mechanisms that have been used and are available, kind of in

22 the toolbox, so to speak, of other utilities, but really

23 trying to address the concerns the Company faces.

24 COMMISSIONER GOLTZ: So I understand, you're

25 not opposed to a full PCAM as opposed to just a renewable

0404

1 resource tracking mechanism?

2 THE WITNESS: The proposal that Staff has

3 made here, we don't believe that addresses our full

4 concerns, but believe that could work in conjunction with

5 our renewable tracking mechanism.

6 COMMISSIONER GOLTZ: Wouldn't a full PCAM

7 incorporate and swallow a renewable resource tracking

8 mechanism?

9 THE WITNESS: If you look at it, Mr. Duvall

10 could address this in greater deal.

11 I believe in the record in this case that the

12 PCAM that Staff has proposed, which I think is identical or

13 nearly identical to the Avista mechanism, would provide some

14 recovery of the power costs, which I believe have been in

15 the 9 to 10 percent range on average since 2007. It would

16 provide some recovery of those costs. But I think it's

17 somewhere in the range of 25 percent of that under-recovery.

18 COMMISSIONER GOLTZ: I think you misstated or

19 overstated.

20 Of course it would provide recovery of the

21 power costs. You get recovery of power costs now.

22 The question is do you get them all or

23 over-recover.

24 THE WITNESS: And I didn't mean to --

25 COMMISSIONER GOLTZ: And the PCAM is going to

0405

1 adjust it one way or the other. So you get your actual

2 power costs, perhaps subject to deadbands or sharing bands.

3 But what you just said made it sound like you

4 aren't recovering power costs. But you are?

5 THE WITNESS: We're recovering a level of

6 power costs. We're not recovering our full power costs.

7 And I apologize if I misstated that, but

8 Mr. Duvall shows that over time since 2007 we've

9 under-recovered our total power costs by about 9 to 10

10 percent on average.

11 COMMISSIONER GOLTZ: And then on the

12 decoupling, you said you're not opposed to decoupling.

13 THE WITNESS: We're evaluating it. We don't

14 know exactly how it would work for PacifiCorp. But it's

15 something we're looking, at especially now that we have the

16 Avista mechanism approved. So we'll be monitoring how that

17 moves forward, as well as the Puget mechanism.

18 COMMISSIONER GOLTZ: You've been evaluating

19 that for over a decade, haven't you?

20 THE WITNESS: Decoupling in general?

21 COMMISSIONER GOLTZ: Yes.

22 THE WITNESS: I think it's been out in the

23 industry for a number of years. So we've looked at it.

24 We haven't seen the specific Avista

25 proposals. The Avista proposal was actually approved during

0406

1 the pendency of this case, so we'll see how that one works.

2 I don't think there's any historical experience.

3 COMMISSIONER GOLTZ: My point is that you,

4 your company has been evaluating decoupling mechanisms.

5 It's not like "we're going to start doing it now with

6 Avista"; you've been evaluating it for probably a decade at

7 least, haven't you?

8 THE WITNESS: Personally I have not.

9 The Company, I know, has looked at it.

10 And there's a variety of ways to implement

11 decoupling. So there's a number of different options.

12 And so the mechanisms that exist for Puget

13 and Avista, I think those are the ones we're going to be

14 looking at closely as far as if we put forth a proposal

15 consistent with those or similar to those in a future

16 proceeding.

17 COMMISSIONER GOLTZ: Thanks. That's all I

18 have.

19 COMMISSIONER JONES: Good morning,

20 Mr. Dalley.

21 THE WITNESS: Good morning.

22 COMMISSIONER JONES: I had some of the same

23 questions that Commissioner Goltz had. So I'm not going to

24 beet a dead horse, but I am going to ask a few questions

25 about PCAM and why you didn't file one.

0407

1 You're right. I did ask some questions

2 yesterday. This has been before us a long time.

3 But in our last order issued in December, I

4 just want to cite to you a couple of sentences from the

5 order. Mr. Duvall -- in paragraph 164, we say Mr. Duvall --

6 and we will talk about this with Mr. Duvall as well, but

7 you're the lead witness, the overview witness for the

8 Company, right?

9 THE WITNESS: Yes.

10 COMMISSIONER JONES: So Mr. Duvall dismisses

11 sharing bands and deadbands as, quote, poor regulatory

12 policy. He said that in the last case, right?

13 THE WITNESS: Yes.

14 COMMISSIONER JONES: And then in our decision

15 section, paragraph 171, we stated, quote, The company's

16 perfunctory response that deadbands and sharing bands are

17 poor regulatory policy and that its power costs are

18 increasingly beyond the Company's ability to control is

19 simply not acceptable."

20 So that's pretty clear language in my view.

21 So why -- in my view, the burden is on the Company to take

22 our order and come up with some PCAM-like mechanism in

23 response to that.

24 And you don't seem to have done that.

25 Instead you have come up with a renewable tracker, right?

0408

1 THE WITNESS: That's correct.

2 COMMISSIONER JONES: What portion of your

3 power costs are due to renewable as opposed to fossil

4 fuels?

5 THE WITNESS: Mr. Duvall can answer that.

6 COMMISSIONER JONES: 60 percent of your load

7 is coal, isn't it?

8 THE WITNESS: That's correct.

9 COMMISSIONER JONES: So over half, at least?

10 THE WITNESS: Yes, that's generated by coal.

11 COMMISSIONER JONES: Okay. So I guess we'll

12 explore this with Mr. Duvall in more detail.

13 But I agree with Commissioner Goltz. My

14 understanding of the PCAM that the other two companies have,

15 especially Avista, is it covers all power costs, fossil,

16 renewable, wholesale, market purchases, et cetera.

17 Is that your understanding or not?

18 THE WITNESS: It does. I do not disagree

19 that it evaluates or it's an adjustment mechanism looking at

20 all of those designs that you just mentioned.

21 COMMISSIONER JONES: Okay. If you could turn

22 to page 8 of your rebuttal testimony, RBD-3T, there's Table

23 1. And I'm sure you're familiar with this. This is the

24 Washington Commission Basis Reports R&D Analysis. Are you

25 there?

0409

1 THE WITNESS: I'm there.

2 COMMISSIONER JONES: So I'd just like for you

3 to explain those different lines to me a little bit more.

4 Because I thought the per books number, especially for 2013

5 -- I thought the per books numbers from 2011-12 were on an

6 increasing trend. So I'm a little bit surprised to see the

7 per books number at 4.95 percent, the restated numbers at

8 8.22, and the pro forma's at 7.73 percent.

9 First of all, I'm surprised because of the

10 trend lines.

11 And then there's quite a wide discrepancy in

12 basis points between those three columns.

13 So maybe you could help me out a little bit

14 here and explain that.

15 THE WITNESS: Certainly. Are you looking at

16 more year to year, or between the per books restated and pro

17 forma for 2013?

18 COMMISSIONER JONES: Let's just focus on

19 2013.

20 THE WITNESS: So the per books is just that.

21 So it's actual accounting records looking at what's on the

22 Company's books. As we move -- which is the 4.95 percent as

23 you mentioned.

24 As you move to the restated numbers, there

25 we're normalizing for revenues and for normal hydro

0410

1 conditions. So an important distinction there, which is why

2 you see the substantial bump from the 4.95 to 8.22, is that

3 we had a rate case that became effective in the latter part

4 of that year, December 1 -- or December 11, I believe, 2013.

5 And so the revenues associated with that rate case are

6 reflected on a normalized basis as if they were in for the

7 entire year.

8 That also reflects normal hydro conditions.

9 And -- that are different from the actuals. So the primary

10 driver from the 4.95 to the 8.22 is the addition of revenue

11 from the company's prior case and the normalization of net

12 power costs.

13 COMMISSIONER JONES: So the normalization of

14 net power costs, especially hydro, is a big driver of that?

15 THE WITNESS: Yes.

16 And then as we move from the 8.22 to the

17 7.73, we make various adjustments consistent with prior

18 Commission Basis Reports.

19 But important to note here that that pro

20 forma number does not include a pro forma net power cost

21 figure. And so the level of power cost included -- and I

22 tried to footnote this to make it clear -- but it does not

23 include nearly the level of power costs that are included as

24 part of this case, which uses 2013 as the historical test

25 period.

0411

1 So we begin this case using the 2013 numbers,

2 but then layering on restated and pro forma adjustments

3 through the rate year for power costs. And those power

4 costs in the current case are approximately 20 million

5 higher on a Washington basis than they were in this column.

6 And so 100 basis points on equity in Washington is about six

7 and a half million dollars. So that increase in power costs

8 alone is about a 300 basis point reduction to ROE.

9 COMMISSIONER JONES: And do you have any

10 initial numbers for 2014 yet?

11 THE WITNESS: I do not. I think we provided

12 -- I don't have it. I could follow up through bench request

13 or try to get some information at a break, but I know we

14 provided quarterly results of operations consistent with the

15 Commission rules. Those are obviously on a per books basis

16 and so they're not normalized, but I can get that you

17 information.

18 COMMISSIONER JONES: I think that would be

19 helpful because the last rate case, the rates became

20 effective on January 1, 2014.

21 THE WITNESS: It was actually December 11,

22 2013. So I believe it's right before the end of the year.

23 JUDGE MOSS: That will be Bench Request 2.

24 (Bench Request 2 noted.)

25 COMMISSIONER JONES: In this case, in

0412

1 response to Commissioner Goltz, you got into decoupling and

2 PCAMs and some other mechanisms in this case. So there are

3 some new mechanisms, both policy and ratemaking in this

4 case, correct, that are before the Commission?

5 THE WITNESS: Yes.

6 COMMISSIONER JONES: And one is the RRTM,

7 right?

8 THE WITNESS: Yes, it is.

9 COMMISSIONER JONES: Another would be the

10 rate design proposal, both -- mainly I think that's a Staff

11 proposal.

12 So we have a number of -- I would say 3, 4, 5

13 mechanisms that might help the Company in timely recovery of

14 costs.

15 Is there any priority that you would -- any

16 priority of importance to the Company that you would attach

17 to any of those mechanisms that you would really like to

18 see?

19 We have capital structure, we have ROE, we

20 have RRTM, we have rate design. Obviously I know you're

21 going to say we want all of them.

22 THE WITNESS: They're all important, and they

23 all address different areas of concern. And so I know we

24 spent most of yesterday talking about the capital structure

25 and return on equity.

0413

1 And I know the capital structure as a point

2 of, I think Mr. Williams said, fairness, of reflecting an

3 actual capital structure that produces our actual costs of

4 debt, and so that's an important one.

5 I think that the RRTM really was the

6 Company's proposal taking feedback from the Commission that

7 a PCAM as we view it is not acceptable to this Commission.

8 It may be acceptable to other commissions in other states,

9 but it's not acceptable here. So we did not make that same

10 proposal again.

11 We took it back and looked at the specific

12 regulatory policies in this state and in the region that are

13 looking to encourage renewable resources, and believe that

14 the RRTM implements the cost recovery provision that's

15 allowed in I-937. So that's an important one.

16 I think using IHS Global Insights as a way of

17 better reflecting costs for the rate effective period and

18 giving the Company a greater opportunity to recover the

19 costs of serving customers is important.

20 COMMISSIONER JONES: So they're all

21 important?

22 THE WITNESS: They're all important. They

23 all address different issues associated with the challenges

24 the company is facing. We can probably break down the

25 revenue requirement associated with each of them and show

0414

1 you them on that basis. But some of them may not

2 necessarily increase the revenue requirements. It's just to

3 provide greater revenue certainty, such as the proposal on

4 the residential fixed charge.

5 COMMISSIONER JONES: And it's also true that

6 two of those issues are queued up in Superior Court right

7 now for litigation, the QF situs issue and capital

8 structure, in the Court of Appeals?

9 THE WITNESS: Yes.

10 COMMISSIONER JONES: So that makes it a

11 little awkward at least for this Commissioner to figure out.

12 That to me indicates that your priorities seem to be in

13 those two areas?

14 THE WITNESS: Those are two key issues. And

15 I think although those are being litigated at the Court of

16 Appeals, I think the evidence and record in this case is

17 different. I think it stands on its own in this case.

18 And we've also provided alternatives to those

19 proposals that were brought forth and rejected by the

20 Commission in the last case. We looked at alternative cost

21 of debt if we used a hypothetical capital structure. I

22 think Mr. Williams talked about that yesterday.

23 And then on the QF issue, QF PPA's in Oregon

24 and California, our primary proposal was to include those

25 resources, just as any other resource in the West Control

0415

1 Area, but also provided two alternatives which were to

2 decrement the load and assume those resources are serving

3 situs load in California and Oregon as well as repricing

4 those resources at Washington costs. And so we tried to

5 provide some options to the Commission for consideration

6 which were different than what were provided in the prior

7 case.

8 COMMISSIONER JONES: Okay. Thank you.

9 CHAIRMAN DANNER: All right. Thank you. I

10 have a list of questions which my colleagues have done a

11 good job in covering.

12 I just want to get back to I want to make

13 sure I understand, when Commissioner Goltz asked you are you

14 losing money in Washington and your answer was "We are not

15 recovering costs," can I ask that question again?

16 Are you -- you're not recovering costs. Dos

17 that mean that you're losing money in Washington?

18 THE WITNESS: As I look at it from a coming

19 up through a revenue requirement background, the return on

20 investment is a cost of serving customers. And so if we're

21 not earning our authorized return, then we're not recovering

22 our full cost of service.

23 So as I look at the earnings level in my

24 testimony that show on average somewhere in the under

25 earning of 6 percent, then I would say no, we're not

0416

1 recovering our costs.

2 CHAIRMAN DANNER: So it's basically we're

3 talking about the return. We're not talking about the -- in

4 the calculations when you look at the revenue requirements,

5 you're just saying basically "We are not making what we feel

6 the investors are entitled to."

7 THE WITNESS: Yes.

8 CHAIRMAN DANNER: Okay. Thank you for that

9 clarification.

10 He also asked you about decoupling and

11 PCAM's. And you said that every utility is different and

12 that PacifiCorp is -- has certain differences compared to

13 the other utilities in Washington that make both PCAM's and

14 decoupling an inappropriate choice for this utility.

15 And I was wondering if you could just

16 identify a few of those difference that would make

17 PacifiCorp -- that I can understand, what makes PacifiCorp

18 different?

19 THE WITNESS: Just to clarify, I don't

20 necessarily want to say that decoupling is inappropriate.

21 We just haven't brought it forth as part of this case.

22 I just think if you look at the geography of

23 how PacifiCorp serves where we've got resources in multiple

24 states, we've got a fleet of coal resources, hydro, natural

25 gas, wind in multiple states. So just the generation

0417

1 portfolio of each of the companies is significantly

2 different.

3 Where we are here in Washington, we don't see

4 a lot of load growth. We're seeing relatively flat load.

5 That may be different for Avista and Puget.

6 Obviously multijurisdictional allocations

7 provide an element for us that is unique.

8 So those are a couple that are key

9 differences between utilities.

10 CHAIRMAN DANNER: And you are still seeing

11 load growth, but it's leveling off?

12 THE WITNESS: Actually, if you look at the

13 production factor adjustments in this case, which that

14 adjustment takes your power costs which are forward looking

15 and adjusts them to the historical loads, the

16 forward-looking load for Washington is actually slightly

17 lower than what it is in the historical test period. And so

18 that shows on an overall basis that the Washington load is

19 slightly declining in the rate year vs. the historical year.

20 CHAIRMAN DANNER: Okay. And is that overall

21 load, or is that load -- is the number of customers

22 increasing or is that declining?

23 THE WITNESS: Don't know the specific answer

24 to that. I'd have to defer that to Ms. Steward.

25 But the overall load that we project for

0418

1 Washington in the rate year is slightly lower than the

2 historical test period.

3 CHAIRMAN DANNER: Okay. Thank you. That's

4 all I have. Thank you.

5 JUDGE MOSS: Any follow-up?

6 MS. WALLACE: Just two questions.

7 JUDGE MOSS: All right.

8 RE-DIRECT EXAMINATION

9 BY MS. WALLACE:

10 Q Mr. Dalley, has the company proposed a decoupling

11 mechanism in Washington previously?

12 A My understanding is one was proposed, I believe,

13 in the 2005 rate case.

14 Q Was it adopted?

15 A It was not.

16 MS. WALLACE: Thank you.

17 JUDGE MOSS: All right. Mr. Dalley, thank

18 you very much for being here and testifying today.

19 Our next witness will be Mr. Duvall.

20 MR. FFITCH: Your Honor, while Mr. Duvall is

21 coming up, we have notified the Company that Public Counsel

22 waives cross of Mr. Duvall.

23 JUDGE MOSS: All right. So we'll have

24 staff and Boise White Paper, I guess.

25

0419

1

2 GREGORY N. DUVALL, witness herein, having been first

3 duly sworn on oath, was examined and

4 testified as follows:

5

6 MR. OSHIE: Your Honor, just to be clear,

7 Staff waives cross of Mr. Duvall as well.

8 JUDGE MOSS: So now we're down to Boise White

9 Paper.

10 Let's let counsel for the Company proceed

11 with their witness.

12 MS. WALLACE: Thank you.

13 DIRECT EXAMINATION

14 BY MS. MCDOWELL:

15 Q Good morning, Mr. Duvall.

16 A Good morning.

17 Q Can you state your full name and spell it for the

18 record?

19 A Yes, my name is -- is this on? Okay. My name is

20 Gregory Duvall; G-R-E-G-O-R-Y, D-U-V-A-L L.

21 Q Mr. Duvall, do you have any corrections to your

22 prefiled testimony in this proceeding?

23 A No, I do not.

24 MS. MCDOWELL: Mr. Duvall is available for

25 cross-examination.

0420

1 JUDGE MOSS: All right.

2 CROSS-EXAMINATION

3 BY MR. COWELL:

4 Q Mr. Duvall, if we could start by turning to page

5 37 of your rebuttal testimony, that's GND-4T?

6 A Okay.

7 Q Now, beginning on line 5 and ending on line 6, you

8 state that static 15-minute EIM transfers are less valuable

9 than dynamic five-minute EIM transfers; is that correct?

10 A That's correct.

11 Q So if we could please turn to Exhibit No.

12 GND-13CX?

13 A I'm there.

14 Q Okay. And then on page 4, both of the exhibit,

15 and the actual document, page 4, could you read the first

16 sentence on the first full paragraph there?

17 MS. MCDOWELL: Your Honor, I just want to

18 renew our previous objection to this exhibit. I don't think

19 there's been any foundation laid for the admission of this

20 exhibit.

21 JUDGE MOSS: I think you will need to lay

22 some foundation.

23 MR. COWELL: Sure. And your Honor, this is

24 what I'm trying to do in reference to what Mr. Duvall just

25 verified in his testimony.

0421

1 JUDGE MOSS: Sorry?

2 MR. COWELL: I'm trying to do that with what

3 Mr. Duvall just agreed to in his rebuttal testimony.

4 JUDGE MOSS: I'll let you go ahead. But I'm

5 having a hard time following how you're laying a foundation.

6 You should establish first that the witness is familiar with

7 this document, for example.

8 Q (By Mr. Cowell) Sure. If we could, then, let's

9 go back to your rebuttal testimony, Mr. Duvall. And on page

10 29 --

11 A Okay.

12 Q You testified here on page 29, lines 5 and 6, the

13 question is: What is the EIM?"

14 And you respond that it's a realtime market

15 administered by a single market operated at CAISO sales; is

16 that correct?

17 A That's correct.

18 Q Same page, lines 18 through 20, you're asked, "Did

19 the Company decide to move forward with the CAISO and

20 participate in the EIM.

21 Line 20, you answer, "Developing EIM using CAISO's

22 proven state of the art technology."

23 That's your testimony, is it not?

24 A It is.

25 Q Okay. Next page, page 30, line 7, you -- the

0422

1 question is, "Are the EIM's benefits a function of the size

2 and scope of its footprint?"

3 And you responded, "Yes, the EIM's viability and

4 benefits come from combining the Company's transmission

5 system and a large system owned by a single entity in the

6 west with the CAISO system; is that correct?

7 A That's correct.

8 Q So is there a relationship with the EIM and CAISO

9 and PacifiCorp?

10 A Yes, there is.

11 Q Thank you.

12 So if we could turn again to Exhibit No.

13 GND-13CX, just to look at the first page,

14 A Yes, I'm there.

15 Q So this document is the answer to comments of the

16 California Independent System Operator Corporation submitted

17 with FERC; is that correct?

18 A That's what the heading says, yes.

19 Q Okay. So if you turn to the second page?

20 A Okay.

21 Q Now it says here in the CAISO's answer that on

22 August 6, 2014 that CAISO filed an amendment to be sure

23 that, one, PacifiCorp may account for EIM transfers in the

24 California Oregon Intertie, the COI."

25 Do you have any reason to dispute that

0423

1 statement?

2 MS. MCDOWELL: Your Honor, I'm going to

3 object to this question. There has not been sufficient

4 foundation laid for any kind of substantive inquiry on this

5 document. It's a CAISO document responding to comments of a

6 party that is not the transmission agency of Northern

7 California. The relevance of this is way out of bounds as

8 far as this witness is concerned, and this witness is not

9 competent to respond to it.

10 MR. COWELL: Your Honor, yesterday when we

11 discussed this, I believe after the Commission had left, you

12 had mentioned -- and I'm paraphrasing -- but this is a new

13 issue, the EIM we're discussing here.

14 And Mr. Duvall has testified that there is a

15 relationship clearly between CAISO, PacifiCorp, and the EIM.

16 So this is getting into his testimony on page 37 concerning

17 the treatment of EIM transfers, it's highly relevant how

18 CAISO treats those transfers.

19 PacifiCorp is testifying -- Mr. Duvall is

20 testifying that they're treated in a certain way. So this

21 is relevant in that capacity.

22 JUDGE MOSS: The point of the objection

23 is that you have not demonstrated through examining this

24 witness that he has any familiarity with this document, that

25 he relied on it in any way in preparing his testimony. So

0424

1 you haven't tied your questions and his testimony to this

2 document. That's the objection.

3 And so far the objection seems a good one.

4 You can ask him about what's in his testimony without

5 reference to this document or you can demonstrate through

6 questions to him that he is familiar with it or in some way

7 relied upon it.

8 Q (By Mr. Cowell) Okay. Mr. Duvall, have you

9 reviewed this document?

10 Are you familiar with it?

11 A I saw it for the first time when it was provided

12 as a cross exhibit. I've read it.

13 Q So going back to page 37, your rebuttal testimony,

14 you said you've testified that 15-minute static transfers

15 are not as valuable as five-minute dynamic transfers,

16 correct?

17 A Correct.

18 Q Okay. So is it your testimony, then, that you are

19 unaware of how the CAISO will differentiate between static

20 and dynamic transfers?

21 MS. MCDOWELL: Objection. I don't know where

22 that question came from. He hasn't testified to that. He

23 hadn't testified to CAISO --

24 JUDGE MOSS: Rephrase your question.

25 Q (By Mr. Cowell) Okay. Are you familiar,

0425

1 Mr. Duvall, with how CAISO will model and manage EIM

2 transfers on the California Oregon Intertie?

3 A Not specifically, no.

4 Q Are you aware that -- so Mr. Duvall, let's again,

5 looking at page 37 of your rebuttal testimony, on what basis

6 are you making that assessment that 15-minute transfers are

7 not as valuable as five-minute dynamic transfers?

8 A Well, I think it's basically a qualitative

9 assessment. But if you can change schedules every five

10 minutes instead of every 15 minutes, you'll be better off.

11 You can reduce the generation at higher cost resources and

12 increase generation at lower cost resources on a more

13 frequent basis. That should save you money.

14 The dynamic transfer allows you to, if you have a

15 200 megawatt schedule, you go from zero to 200 during that

16 five-minute period.

17 If you have a static schedule for 15 minutes and

18 you schedule 200 megawatts, you have to keep that

19 200-megawatt schedule for the entire 15 minutes.

20 It just seems obvious to me from a qualitative

21 perspective that the five-minute dynamic is more valuable

22 than a 15-minute static schedule.

23 Q So your testimony is that this is your judgment?

24 A Yes.

25 Q And it's your judgment not based on statement

0426

1 CAISO has made about how they will treat these transfers?

2 A No, it's my judgment based on what is obvious to

3 me.

4 Q So again to confirm, I don't know you responded to

5 the question. So you have not -- it's your judgment alone

6 without review of what CAISO has said of how they treat

7 these transfers?

8 A That's correct.

9 Q Okay.

10 MR. COWELL: Your Honor I would move to offer

11 Exhibit 13CX because I do think it's relevant that CAISO is

12 involved in the EIM and it's part of this case, the

13 benefits, the cost of the EIM. So I do believe it's

14 relevant and I offer that exhibit.

15 MS. MCDOWELL: And we renew our objection.

16 It seems the questions not only did not demonstrate

17 foundation, they show there's absolutely no foundation.

18 JUDGE MOSS: I'll sustain the objection.

19 MR. COWELL: Your Honor, I would like to ask

20 a follow-up question.

21 Q (By Mr. Cowell) So Mr. Duvall, would you agree

22 that the CAISO will model and manage EIM transfers on the

23 COI's aggregate dynamic schedules regardless of whether

24 PacifiCorp submits a single dynamic e-Tag or a combination

25 of a normal status e-Tag and dynamic e-Tag?

0427

1 MS. MCDOWELL: I'm going to object to that

2 because I believe it was a compound question. It was

3 certainly one I couldn't follow. So I'm assuming the

4 witness couldn't either.

5 JUDGE MOSS: I don't know if the witness

6 followed it or not? Did you follow it?

7 THE WITNESS: I did not.

8 JUDGE MOSS: I'm sorry. I didn't follow it

9 either. If not compound, it was certainly complex.

10 You might try it again.

11 MR. COWELL: No further questions, your

12 Honor.

13 JUDGE MOSS: All right. I think that's it,

14 except questions from the bench. Mr. Goltz?

15

16 QUESTIONS FROM THE COMMISSIONERS

17 COMMISSIONER GOLTZ: So Mr. Duvall, I'd like

18 to explore a little bit the QF issue so I understand it a

19 little better.

20 So am I correct that in a qualifying facility

21 in Washington for PacifiCorp that's a standard offer

22 contract that includes a fixed price for five years,

23 generally it's a five-year contract; is that correct?

24 THE WITNESS: That's correct.

25 COMMISSIONER GOLTZ: In Oregon it's longer

0428

1 than that?

2 THE WITNESS: It's up to 20 years with the

3 first 15 years to be fixed price, the last five years to be

4 market.

5 COMMISSIONER GOLTZ: And in Washington at the

6 end of the -- you have a number of QF's in Washington as

7 well?

8 THE WITNESS: I believe we have three active

9 QF's.

10 COMMISSIONER GOLTZ: And so what happens at

11 the end of the five-year period then in Washington?

12 THE WITNESS: They either -- they would renew

13 or go away or take some other action.

14 COMMISSIONER GOLTZ: So it would be renewed

15 for another five-year period, is one option?

16 THE WITNESS: That's one option, yes.

17 COMMISSIONER GOLTZ: So in general, looking

18 at the practice in -- for PacifiCorp, has there been a

19 downward trend in Pacific Power's avoided cost rate?

20 THE WITNESS: Yes, there has.

21 COMMISSIONER GOLTZ: And that's true

22 Washington, Oregon, everywhere?

23 THE WITNESS: Everywhere.

24 COMMISSIONER GOLTZ: Is that substantially

25 because of the decreasing cost of the natural gas?

0429

1 THE WITNESS: Yes, and the decreasing effect

2 on the forward price curves.

3 COMMISSIONER GOLTZ: Any other major reasons

4 for that?

5 THE WITNESS: The pushing out of the resource

6 needs. We don't need resources in our 2013 IRP updates. We

7 don't need a new resource until 2027.

8 COMMISSIONER GOLTZ: So if that's true, then

9 over the life of the contract in Washington it would be -- I

10 guess largely follow that a renewal of a five-year contract

11 would result in a lower avoided cost rate for the second

12 five-year period.

13 THE WITNESS: If that trend continued, that

14 would be the outcome, yes.

15 COMMISSIONER GOLTZ: Over the past 15 years

16 that was the trend, correct?

17 THE WITNESS: I don't know if -- did you say

18 15?

19 COMMISSIONER GOLTZ: 15 or 10?

20 THE WITNESS: Probably maybe over the last --

21 probably since 2008.

22 COMMISSIONER GOLTZ: On your testimony

23 GND-1CT, at 14, on lines 7 and 8 you talk about an inflation

24 factor; is that right?

25 Did I read that correctly?

0430

1 THE WITNESS: Yes.

2 COMMISSIONER GOLTZ: How is that calculated?

3 THE WITNESS: I believe we would have used

4 the inflation factors from IHS Global Insights.

5 COMMISSIONER GOLTZ: Okay. You also included

6 in this, in your testimony, or you referenced a 1985 Yakima

7 Tieton Irrigation District PPA. Correct?

8 THE WITNESS: Yes.

9 COMMISSIONER GOLTZ: And didn't you reprice

10 that for 1993 as opposed to 1985 price?

11 THE WITNESS: We used the earlier Yakima

12 Tieton contract pricing to come up with the vintage prices

13 for the Oregon/California contracts that had been executed

14 during that time.

15 COMMISSIONER GOLTZ: So you repriced the

16 Yakima Tieton contract to be consistent with the

17 California/Oregon prices?

18 THE WITNESS: No. The Yakima Tieton contract

19 has been around for a while. And it has been, I believe,

20 repriced as it's -- come to its termination and been

21 repriced. But what we used it for in the repricing analysis

22 was that we had a Yakima Tieton contract that was basically

23 of the same vintage as some of the existing Oregon

24 contracts. And so we used that to come up with the

25 Washington avoided cost at the time of those contract

0431

1 executions for the repricing exercise.

2 COMMISSIONER GOLTZ: So I see you've been

3 with the company for quite a while.

4 How was this issue of allocating costs for

5 QF's done prior to the merger?

6 THE WITNESS: So prior to 1989?

7 COMMISSIONER GOLTZ: Yes.

8 THE WITNESS: My recollection is they were

9 system allocated.

10 COMMISSIONER GOLTZ: They were system

11 allocated?

12 THE WITNESS: That's my recollection.

13 COMMISSIONER GOLTZ: You don't think they

14 were done by situs?

15 THE WITNESS: I don't recall any discussion

16 about situs assignment.

17 COMMISSIONER GOLTZ: So let me ask this,

18 then: You have basically three proposals before us on this,

19 correct?

20 You have the original proposal, which is do

21 it the way we wanted it in the last rate case.

22 And you said but if that doesn't work we can

23 do your load decrement approach.

24 And then the third one would be the

25 Washington repricing mechanism; is that correct?

0432

1 THE WITNESS: That is correct.

2 COMMISSIONER GOLTZ: So right now, the costs

3 of these QF's in Oregon and California are being recovered,

4 some through the Washington rates and some through the rates

5 from your other five states; is that correct?

6 THE WITNESS: None of the costs of the Oregon

7 and California QF's are being recovered in Washington rates

8 at this time.

9 COMMISSIONER GOLTZ: Okay. But they're being

10 recovered in the other five states?

11 THE WITNESS: Yes, they are.

12 COMMISSIONER GOLTZ: You aren't recovering --

13 isn't the cost of the QF's in Oregon that are being -- isn't

14 there an accreted market cost that's been recovered in

15 Washington?

16 THE WITNESS: No. All of the QF's in the

17 other five states, all of the other five states' systems

18 allocate all of the QF costs.

19 COMMISSIONER GOLTZ: Right.

20 THE WITNESS: So they're even picking up a

21 share of the Washington QF's.

22 COMMISSIONER GOLTZ: So if -- I guess what

23 I'm wondering is if we were to adopt one of your mechanisms

24 for recovery of QF costs in Washington, the Oregon QF's, how

25 would I know, based on this record, that PacifiCorp is not

0433

1 overcollecting their costs?

2 In other words, if the total collections from

3 each of the six states doesn't actually exceed the costs of

4 -- that you incur with these QF's?

5 THE WITNESS: I think what you're asking is

6 that how would you be sure we're not collecting over 100

7 percent of the costs?

8 COMMISSIONER GOLTZ: Yes.

9 THE WITNESS: And you wouldn't. If you

10 adopted one of those proposals in the West Control Area, for

11 example, Chehalis, Hermiston, Jim Bridger, are all being

12 overcollected because Washington is paying 22 percent of

13 them and the other states are paying 92 percent of them.

14 On the east side of the system everything is

15 being undercollected because Washington is paying for none

16 of it and the other states are paying for 92 percent of it.

17 So the other states pay 92 or 93 percent of

18 all of the system costs and that results with Washington

19 picking up 22 percent of the west and zero percent of the

20 east, we recover nothing on the east and we over-recover on

21 the west.

22 COMMISSIONER GOLTZ: Those are my questions.

23 Thank you.

24 CHAIRMAN DANNER: I had some questions about

25 the coal facility at Bridger, and I was wondering -- some

0434

1 overall questions. And I was wondering if this would be the

2 appropriate witness for them.

3 JUDGE MOSS: We'll ask Mr. Duvall. Can you

4 talk to us about coal?

5 THE WITNESS: I can try, depending on the

6 questions.

7 JUDGE MOSS: And if necessary we can have Ms.

8 Crane.

9 MS. MCDOWELL: She is available by telephone.

10 CHAIRMAN DANNER: These are really high level

11 questions. I've read the testimony.

12 I'm concerned about the fact that the prices

13 for the operation of the Bridger plant are going up. And I

14 just am looking at the trends in coal prices generally.

15 I know there are some rail challenges.

16 Is this, you know, finding the miners I think

17 is also a problem at Bridger, correct, there are human

18 resource problems there?

19 THE WITNESS: I can only answer that because

20 I've read Ms. Crane's testimony. She would actually be the

21 one who knows more about that.

22 CHAIRMAN DANNER: Okay. I think I'm going to

23 pass on that. I was going to ask some clarifying questions,

24 but they're not that important. That's all right.

25 So I think that's all I want to ask at this

0435

1 time. So go ahead.

2 COMMISSIONER JONES: Mr. Duvall, I'm going to

3 follow up on some of Commissioner Goltz's questions, first

4 on the QF's.

5 So in response to his question on the

6 escalating, you said it's somewhere -- you think it's in the

7 IHS Insights. It's a confidential document attached to

8 Mr. Dalley's. It's 5-D with Dalley. So I'm not going to

9 cite to it, but I've looked at it. And I don't think

10 there's anything on there in power costs. It relates to

11 construction costs and O&M cost.

12 So if you can answer the question, what sort

13 of escalation factor -- and if you can't answer it, this is

14 a bench request. Is it CPI increase, is it a GDP

15 deflator?

16 What sort of escalation factor are you using?

17 THE WITNESS: My understanding was it was a

18 general inflation factor, as you mentioned, CPI, GDP.

19 But I think if you want a precise answer we

20 could certainly do a bench request on that.

21 COMMISSIONER JONES: Could you, please?

22 THE WITNESS: Yes.

23 (Bench Request No. 3 noted.)

24 COMMISSIONER JONES: And while you're doing

25 that one -- this could be a bench request too. In your

0436

1 rebuttal testimony you refer to Ms. Siores' calculation of

2 the revenue requirements impacts of the two alternatives,

3 right?

4 THE WITNESS: Yes, I do.

5 COMMISSIONER JONES: And that is in NCS-12.

6 So I'm looking at NCS-12 now. So you have a column listed

7 "Repricing of WA QF's Avoided Costs," and then you have a

8 column "Change from filed."

9 So the filed number, it would be the QF situs

10 proposal in your testimony, which would have a revenue

11 requirement impact of 10 million dollars, right?

12 I just want to make sure I do the math right.

13 THE WITNESS: Yeah, I don't have that

14 document.

15 MS. MCDOWELL: Your Honor, may I?

16 JUDGE MOSS: Sure.

17 COMMISSIONER JONES: Thank you.

18 THE WITNESS: So I'm looking at NCS-12, page

19 2 of 6?

20 COMMISSIONER JONES: Correct.

21 THE WITNESS: And the Results with Price

22 Change column, Column 3?

23 COMMISSIONER JONES: That's correct.

24 THE WITNESS: Is 10.9 million.

25 COMMISSIONER JONES: So that would be 10.9

0437

1 million for price change?

2 THE WITNESS: Yes. And I'm sorry. This is

3 Ms. Siores' exhibit.

4 COMMISSIONER JONES: You're on page 2 of

5 that?

6 THE WITNESS: I am.

7 COMMISSIONER JONES: Okay. I see where you

8 are.

9 And the 10.9 million is compared to what?

10 THE WITNESS: I don't know. This is

11 Ms. Siores' exhibit. And so I guess the 10 -- I'm not sure

12 exactly what the 10. Is because it's not my number.

13 But I would suspect that's compared to

14 current rates.

15 COMMISSIONER JONES: Okay. Current rates

16 being the total net power cost number of which -- what's

17 your number on rebuttal for net power costs as

18 revised? It's like 590 million?

19 THE WITNESS: 592.7.

20 COMMISSIONER JONES: So would that be the

21 number that it's probably referring to, is the 592.7?

22 THE WITNESS: I believe the 10.9 million

23 would be in that number.

24 COMMISSIONER JONES: Correct. Yes. Okay.

25 THE WITNESS: And the 10.9 million is a

0438

1 Washington allocated. And the Washington allocated net

2 power costs are 135.6 million.

3 COMMISSIONER JONES: So in response to

4 Commissioner Goltz, you're aware of the fact that we're at

5 five-year terms and in Oregon they're at 15 fixed and market

6 for five years, 20-year terms, right?

7 So another way of calculating the revenue

8 impact would be to reprice these QF's on the Oregon cost

9 rates in year 6 and year 11 according to our avoided cost

10 formula, right?

11 THE WITNESS: It would be repricing them at

12 Washington avoided costs at the time the contracts were

13 entered.

14 So there's a number of contracts in Oregon

15 and California. They're older contracts.

16 COMMISSIONER JONES: Right.

17 THE WITNESS: So we have prepared the

18 repricing proposal by saying if we had repriced those at the

19 then current Washington avoided costs, that would have

20 reduced our proposal by 2.2 million or 2.175 million on a

21 Washington allocated basis.

22 COMMISSIONER JONES: So how do you deal with

23 the issue that under our avoided costs formula that the QF's

24 expire at the end of year five and then we go into another

25 perhaps cycle in years six, seven, eight?

0439

1 THE WITNESS: Yeah. So when we look at the

2 older contracts, and if we price them at the -- so the

3 five-year term in Washington has not always been the case.

4 We just had a QF, City of Walla Walla, that was on a 35-year

5 term that just expired at the end of the 2012.

6 These older Tieton contracts, I believe were

7 on 20-year terms. I'm not certain of that, but I think

8 that's what they were.

9 And so what we've done is we've taken those

10 prices out of those contracts and said if we just -- if the

11 Washington Commission had repriced at the time those

12 contracts were entered at Washington avoided costs, then

13 Washington customers would be indifferent. And that's the

14 theory behind that repricing.

15 And in fact, that is exactly what the

16 Commission did in 1983 that was brought up in Mr. Gomez's

17 testimony and in my rebuttal testimony, is that this was

18 with the Potlatch facility for Avista, which was then the

19 Washington Water Power Company. And the Commission looked

20 at the avoided costs that Idaho had set, and they said those

21 are too high; let's use our avoided costs to reprice it.

22 COMMISSIONER JONES: Yes, I read your

23 testimony on that point.

24 So I guess the question is, instead of using

25 the inflation escalator of IHS in the Walla Walla and

0440

1 irrigation district PPA prices, if you used a different

2 formula of avoided costs at the time the contract expired,

3 it might be a more precise way, or another way of doing it?

4 THE WITNESS: Well, we didn't use the

5 inflation in the Walla Walla contract. It had specific

6 prices out through 35 years.

7 COMMISSIONER JONES: I know that. I'm

8 talking about the Oregon QF contracts and the California QF

9 contracts, right?

10 THE WITNESS: Right.

11 COMMISSIONER JONES: How many Oregon QF

12 contracts do you have?

13 THE WITNESS: I don't know the number.

14 COMMISSIONER JONES: 60, 70? Just give me a

15 ballpark?

16 THE WITNESS: Probably in that range, yes.

17 COMMISSIONER JONES: What about California?

18 THE WITNESS: Maybe a dozen.

19 COMMISSIONER JONES: So what I'm talking

20 about is repricing those contracts according to the terms,

21 you know, in year six and coming back to our avoided cost at

22 the time they would expire. So did you consider that at

23 all?

24 THE WITNESS: I'm not sure I understand the

25 question. Sorry.

0441

1 COMMISSIONER JONES: Okay. This may have to

2 be a bench request.

3 THE WITNESS: Okay.

4 COMMISSIONER JONES: I think we're talking

5 past each other a little bit here. But I do understand the

6 revenue impact.

7 So the official Company estimate of the two

8 repricing proposals is the evidence in Ms. Siores'

9 testimony, correct?

10 THE WITNESS: I think that the -- the revenue

11 requirement impact.

12 COMMISSIONER JONES: That's what I'm talking

13 about, the revenue requirement impact for load decrement and

14 repricing. That's the authoritative Company number right

15 now?

16 THE WITNESS: That is correct.

17 COMMISSIONER JONES: PCAM. So in our last

18 case you called -- you referred to deadbands and sharing

19 bands as poor regulatory policy, right?

20 THE WITNESS: I did.

21 COMMISSIONER JONES: Do you still believe

22 that?

23 THE WITNESS: I do not believe that deadbands

24 and sharing bands make sense. I mean, they tend to be --

25 it's argued that they are there to be company incentives to

0442

1 manage their costs.

2 But my view is that our power costs are

3 mainly outside our control, whether natural gas, forced

4 outages, things like that that we have no control over. And

5 the sharing bands do not do anything to incent us to control

6 them.

7 COMMISSIONER JONES: Okay. I think I

8 understand your logic there. I may not agree with it, but I

9 understand it.

10 But you do comply with the Oregon sharing

11 band order, right, when you submit -- when you calculate

12 NPC, net power costs, and do that for the Oregon commission,

13 you do comply with their conditions, right?

14 THE WITNESS: Yes, we do.

15 COMMISSIONER JONES: Is it burdensome?

16 THE WITNESS: It's not. I wouldn't call it

17 burdensome. I mean, it's just another filing looking

18 through the accounting data, applying the pieces of the

19 mechanism, and coming up with a result. It's fairly

20 straightforward.

21 COMMISSIONER JONES: Have you had a chance to

22 review Mr. Gomez' testimony yet?

23 THE WITNESS: Yes, I have.

24 COMMISSIONER JONES: A few questions about

25 his proposal. I think he proposes to set the deadband at 5

0443

1 percent of WCA net power costs, right?

2 THE WITNESS: I believe that's correct.

3 COMMISSIONER JONES: Is that an appropriate

4 number, or would you suggest something else, 3 percent, 4

5 percent, 6 percent?

6 THE WITNESS: I would suggest zero.

7 COMMISSIONER JONES: I know you would.

8 But in the alternative?

9 THE WITNESS: Well, in the alternative I

10 would suggest the RRTM, the Resource Renewable Tracking

11 Mechanism.

12 COMMISSIONER JONES: I didn't want to go

13 there yet, but let's go there.

14 So Mr. Dalley said the two can complement

15 each other and work together. I find that hard to

16 understand. So could you walk me through why we would need

17 a tracker for renewables, and if we decide to impose a PCAM

18 on you, have a PCAM as well.

19 To me all the renewable, the coal costs that

20 Chairman Danner referred to, are all included in a PCAM, or

21 could be, right?

22 THE WITNESS: They are. And the Washington

23 design of a PCAM is similar to Oregon's. And they are

24 basically, as I would call them, are insurance policies for

25 the extreme events, as opposed to, as Mr. Strunk said

0444

1 yesterday, the other 42 states have dollar for dollar

2 PCAM's.

3 So the Renewable Resource Tracking Mechanism,

4 or RRTM, is designed to comply with the Energy Independence

5 Act. And in my testimony on page 39, I quote from that Act.

6 I say under RCW 19.285.050 Section 2.

7 COMMISSIONER JONES: What page are you on?

8 THE WITNESS: Page 39.

9 COMMISSIONER JONES: This is of your

10 rebuttal?

11 THE WITNESS: My direct.

12 COMMISSIONER JONES: Your direct.

13 THE WITNESS: Other sorry.

14 COMMISSIONER JONES: Hang on for a minute.

15 THE WITNESS: Yes.

16 COMMISSIONER JONES: Okay.

17 THE WITNESS: So it's lines 6 and 7. It

18 says, quote, An investor-owned utility is entitled to

19 recover all prudently incurred costs associated with

20 compliance with this chapter.

21 So that's what we took to basically design

22 the RRTM so that it recovered all of the prudently incurred

23 costs that the utility is entitled to, no more, no less.

24 And so that's different than sort of the

25 traditional PCAM's that have been brought before this

0445

1 Commission.

2 And I think having them work together is

3 something that Oregon is now looking at. And the main issue

4 is we don't want to, you know, collect the same costs under

5 both mechanisms. They're different enough that they do

6 different things. But we just -- I think that's the main

7 issue in Oregon, is to not double count.

8 CHAIRMAN DANNER: So I guess I understand why

9 this is in the Act.

10 But I don't understand why this creates

11 special treat for renewables since I would assume that

12 you're entitled to recover all prudently incurred costs

13 associated with any prudently incurred investment that you

14 make. What makes renewables special?

15 THE WITNESS: I guess we don't recover all of

16 our prudently incurred costs under the current regulatory

17 scheme in Washington.

18 And I read this as being more specific that

19 because we have to comply with this Washington law, that

20 we're entitled to recover those costs. And I read that as

21 the actual costs.

22 CHAIRMAN DANNER: Okay. So the argument is

23 you're not recovering your costs for other nonrenewable

24 investments.

25 And is that true for investments that we have

0446

1 deemed used and useful in the state, or are you talking

2 about other investments we have not found used and useful in

3 the state?

4 THE WITNESS: I'm referring to net power

5 costs. And I think somewhere in my rebuttal testimony I

6 note that we are under-recovered in the six years -- well,

7 basically since the Energy Independence Act we've

8 under-recovered net power costs by about 50 million dollars.

9 And I think the -- sort of looking at the

10 RRTM, we believe over that same period we would have

11 collected 35 million of that under-recovery.

12 And under the status of PCAM we would have

13 collected 10 million of that 50 million under-recovered.

14 So we think the RRTM is a better mechanism.

15 We think it's aligned with the State of Washington energy

16 policies that encourage renewable generation. And we think

17 it's something that we're asking the Commission to consider.

18 CHAIRMAN DANNER: So it's interesting, this

19 is -- your 50 million dollar reference is on page 40, line

20 13. And what you say is without a PCAM in place, the

21 Company is subject to the risk of significant under-recovery

22 of that power cost.

23 But the PCAM is not -- you're saying the PCAM

24 would not give you full recovery; is that right?

25 COMMISSIONER JONES: What page are you on?

0447

1 CHAIRMAN DANNER: Page 4.

2 THE WITNESS: I'm pretty sure what I meant by

3 a PCAM is my view of a PCAM as opposed to the --

4 CHAIRMAN DANNER: In other words, a PCAM with

5 a sharing band and deadband of zero?

6 THE WITNESS: That's correct.

7 CHAIRMAN DANNER: Okay.

8 COMMISSIONER JONES: And I think we'll get to

9 hear from Mr. Gomez later on that. He may disagree with

10 that.

11 CHAIRMAN DANNER: I'm sorry. I'm in your

12 space.

13 COMMISSIONER JONES: Go ahead.

14 CHAIRMAN DANNER: I also wanted to get a

15 little clarity, because I heard this morning the RRTM

16 Mr. Dalley was suggesting, that if a PCAM were in place the

17 RRTM could work complementary with that and that you were

18 exploring that in Oregon in their generic PCAM proceeding.

19 And I was just wondering how those would work

20 and how it would be that the PCAM wouldn't swallow up the

21 renewable component.

22 THE WITNESS: Well, the renewable component

23 under the RRTM would be basically a dollar for dollar

24 recovery, and the PCAM is not. It has deadbands and sharing

25 bands in Oregon, as well as if one were to be in Washington

0448

1 according to the direction of the Commission, it would have

2 deadbands and sharing bands.

3 CHAIRMAN DANNER: So your thought would be if

4 you're going to be in a PCAM with deadbands and sharing

5 bands, then the renewables would be lifted out of that and

6 there would be no deadbands or sharing bands for that; it

7 would just be --

8 THE WITNESS: That's correct. And the main

9 issue would be to make sure we didn't double collect or

10 double count.

11 COMMISSIONER JONES: Back to me.

12 Could you go to GND-2? This is your exhibit

13 to your direct testimony.

14 What I'd like to do is just walk through the

15 components of net power costs that you set forth there. And

16 we can say kind of a yes or no if it's in the scope of an

17 RRTM or a PCAM as described by Mr. Gomez. Are you there?

18 THE WITNESS: Yes, I am.

19 COMMISSIONER JONES: So let's do it by

20 header. So the special header is Special Sales for Resale,

21 91 million dollars, right?

22 So would that be in a PCAM as described by

23 Mr. Gomez?

24 THE WITNESS: Yes, it would be.

25 COMMISSIONER JONES: Would that be in an

0449

1 RRTM?

2 THE WITNESS: No, it would not.

3 COMMISSIONER JONES: Next, Purchase Power and

4 Net Interchange, the total there is 88 million. Would that

5 be in a PCAM?

6 THE WITNESS: Yes, it would be.

7 COMMISSIONER JONES: In an RRTM?

8 THE WITNESS: No, it would not.

9 COMMISSIONER JONES: Okay.

10 THE WITNESS: Well, let me clarify that. To

11 the extent that there are purchase power contracts that are

12 renewable contracts --

13 COMMISSIONER JONES: Like a QF in Montana or

14 a QF somewhere, a renewable resource located somewhere

15 that's wheeled into your -- either the East Control Area or

16 the West Control Area?

17 THE WITNESS: Well, these are only West

18 Control Area resources.

19 COMMISSIONER JONES: This is WCA only?

20 THE WITNESS: Right.

21 COMMISSIONER JONES: Pardon me. This is WCA

22 only.

23 THE WITNESS: a PPA, whether it's a QF or not

24 a QF.

25 COMMISSIONER JONES: Next one here is where I

0450

1 think the RRTM comes in, Qualifying Facilities.

2 And I would just note for the record that the

3 overwhelming majority by revenue of QF's are in the state of

4 Oregon, right?

5 27.7 million dollars in Oregon, 6.9 million

6 in California. Only 579,000 to the three QF contracts here,

7 right?

8 THE WITNESS: That's virtually correct

9 because there's others individually listed.

10 The biomass is in Oregon. That's Douglas

11 County is in Oregon.

12 COMMISSIONER JONES: That's true. Okay.

13 But let's go to the subheader. This is not a

14 full header. But that 67.4 million for QF total, would all

15 of that be included in the RRTM?

16 THE WITNESS: Only those that would qualify

17 as eligible resources under the Energy Independence Act.

18 For example, Biomass I don't believe would

19 qualify on that. I'm not sure on that.

20 COMMISSIONER JONES: I think you're right.

21 We can research that.

22 THE WITNESS: Right.

23 COMMISSIONER: Okay. But those -- that 67

24 million in QF contracts would also be included under a PCAM,

25 right?

0451

1 THE WITNESS: Correct.

2 COMMISSIONER JONES: And then we have the

3 Mid-C contracts. Those of course would be included in a

4 PCAM.

5 THE WITNESS: Yes, they would.

6 COMMISSIONER JONES: But not in an RRTM?

7 THE WITNESS: That's correct.

8 COMMISSIONER JONES: And then we have some

9 system balancing purchases at COB, at Columbia NOB. Those

10 would be in a PCAM, I think that's 84 million, but not in an

11 RRTM, right?

12 THE WITNESS: That's correct.

13 COMMISSIONER JONES: Let's go to the next

14 page, Wheeling. You have total Wheeling expenses of 110

15 million. Would those be in a PCAM?

16 THE WITNESS: Yes, they would.

17 COMMISSIONER JONES: In an RRTM?

18 THE WITNESS: No.

19 COMMISSIONER JONES: Then Chairman Danner

20 asked you about some coal expenses. You have Colstrip and

21 Bridger here.

22 And I would note for the record that this is

23 -- nearly 40 percent of your NPC is related to coal fuel

24 burn, right, 222 million. That would all be included in a

25 PCAM, right?

0452

1 THE WITNESS: That's correct.

2 COMMISSIONER JONES: And then we have the

3 next column, gas for Chehalis, Hermiston. Gas fuel burn

4 expense of 86 million, 87 million, that would all be

5 included in a PCAM?

6 THE WITNESS: That's correct.

7 COMMISSIONER JONES: RRTM no?

8 THE WITNESS: Correct.

9 COMMISSIONER JONES: And that adds up to

10 roughly -- well, this was 568. You revised that on rebuttal

11 to 592 million, roughly, right?

12 THE WITNESS: Yeah, 592.7.

13 COMMISSIONER JONES: Thank you. Those are

14 all my questions.

15 COMMISSIONER GOLTZ: I have one more. I

16 think I understood you correctly when I asked you some

17 questions earlier about QF's. I had an understanding about

18 how they're allocated now in Washington, and I think it was

19 different from your understanding.

20 So I wanted to read to you two sentences, the

21 last two sentences in paragraph 98 of our order in the last

22 rate case UE-130043. And you can tell me if this is wrong.

23 And if you need to make it subject to check, then over the

24 lunch hour you can check it.

25 So the last two sentences of paragraph 98 in

0453

1 that order read, "Washington ratepayers remain responsible

2 for paying for all power they use, but any power attributed

3 to an Oregon or California QF is priced at market rates, not

4 the higher prices from QF production in those states."

5 Do you agree with that?

6 THE WITNESS: That's what the Commission did.

7 COMMISSIONER GOLTZ: Right. But that's the

8 way it is done now?

9 THE WITNESS: That's my understanding, yes.

10 COMMISSIONER GOLTZ: Okay. The second

11 sentence is, "At the same time, however, Washington rates

12 include 100 percent of the cost PacifiCorp incurs in buying

13 power from Washington QF's, whether higher or lower than

14 market rates, even though power from Washington QF's

15 arguably is also serving load in Oregon and Washington."

16 Do think that is that an accurate statement

17 of the way it's done now?

18 THE WITNESS: Yes, it is.

19 COMMISSIONER GOLTZ: I may ask that of Mr.

20 Gomez as well. But thank you.

21 COMMISSIONER JONES: Judge Moss, if I could,

22 I just have one question on my list I didn't ask. It won't

23 be long, and I think we may have a break.

24 If we adopt Mr. Gomez' proposal we will have

25 to verify -- and it's in his testimony -- what are NPC

0454

1 actual costs.

2 THE WITNESS: Yes.

3 COMMISSIONER JONES: Can we do that? How

4 easy is that going to be to do, because we've discussed this

5 before, you have with the Bench.

6 The WCA of course is a pseudo, what I call a

7 pseudo. It's a representation of power costs, maybe not

8 actually how you dispatch it at the Company.

9 So how are we going to -- are you confident,

10 and how would you and Staff work together to verify what are

11 NPC actual costs?

12 How would that be done, the operations of

13 that?

14 THE WITNESS: Yes. So prior to the last

15 case, we had used grid to create pseudo actuals, as they

16 were referred to.

17 COMMISSIONER JONES: Right.

18 THE WITNESS: And in the last case, we

19 proposed a different method that did not use GRID. It used

20 our books and records.

21 And my understanding -- so basically, since

22 we do dispatch on a total company basis, our loads and

23 resources in the WCA don't balance. So to the extent that

24 we have too many resources, we back off, I believe it's the

25 highest cost purchases or set of purchases. So we get into

0455

1 balance and then that's our actuals.

2 If we have not enough resource, then we back

3 off wholesale sales until our retail loads and resources are

4 in balance.

5 And my understanding is Mr. Gomez has

6 reviewed that, and in this case has basically endorsed that

7 method as reasonable. And we're happy to work with

8 Mr. Gomez to, you know, finalize that if need be.

9 COMMISSIONER JONES: Okay. Thank you for

10 that clarification.

11 JUDGE MOSS: Okay. We will offer an

12 opportunity for follow-up. Does anybody have any? Are we

13 talking five minutes or less?

14 We do need to take a break.

15 MS. MCDOWELL: No follow-up.

16 JUDGE MOSS: All right. Good.

17 Then with that, Mr. Duvall, thank you for

18 being with on the stand this morning.

19 We will take our morning break. Let's be

20 back in ten minutes.

21 (Recess.)

22 JUDGE MOSS: Back on the record.

23

24

25

0456

1 RICHARD A. VAIL, witness herein, having been first

2 duly sworn on oath, was examined and

3 testified as follows:

4

5 DIRECT EXAMINATION

6 BY MS. WALLACE:

7 Q Good morning, Mr. Vail.

8 A Good morning.

9 Q Could you please state and spell your name for the

10 record?

11 A Yes. Richard Vail; R-I-C-H-A-R-D, V-A-I-L.

12 Q And do you have any corrections for your prefiled

13 testimony in this case?

14 A I do not.

15 MS. WALLACE: Thank you.

16 Mr. Vail is available for cross-examination.

17 JUDGE MOSS: All right. Ms. Davison, do you

18 still have ten minutes for Mr. Vail?

19 MS. DAVISON: I have less, your Honor.

20 JUDGE MOSS: Always music to my ears.

21 CROSS-EXAMINATION

22 BY MS. DAVISON:

23 Q Mr. Vail, good morning.

24 A Good morning.

25 Q You sponsored testimony supporting three proposed

0457

1 pro forma capital additions in the case. And that would be

2 the Union Gap Substation upgrade, correct?

3 A That's correct, yes.

4 Q The Selah Substation capacity relief project,

5 correct?

6 A Correct.

7 And the Fry Substation project?

8 A Yes.

9 Q So of those three, is it correct that the Selah

10 Substation and the Fry Substation project are being taken

11 out of the case because of the timing of when they go in

12 service?

13 A Yes. Both Selah and Fry, the in-service date has

14 been pushed out.

15 Q But you're still seeking recovery of Phase 1 of

16 the Union Gap Substation upgrade, correct?

17 A Yes. Phase 1 of Union Gap is in service.

18 Q And is Phase 1 of --

19 MR. OSHIE: Excuse me. The microphone's not

20 on, and apparently Staff can't hear you.

21 MS. DAVISON: Sorry about that. I don't need

22 to start over, surely. Okay.

23 Q (By Ms. Davison) So we're going to focus on the

24 Union Gap Substation upgrade. Is the Phase 1 of that

25 project complete at this time?

0458

1 A Yes, it is. It was put in service --

2 JUDGE MOSS: Is your microphone on? The red

3 light should be illuminated.

4 THE WITNESS: Okay, there we go.

5 Yes, Union Gap Phase 1 is in service as of

6 November 7. The majority of the project went in service in

7 August.

8 Q (By Ms. Davison) But isn't it true that there's

9 still a transformer that needs to be moved for that project

10 to be completed, Phase 1?

11 A No. In Phase 1, what we did in Phase 1 of this

12 project is there's three existing transformers, and two of

13 those transformers are being replaced with a new

14 transformer. That new transformer and all the distribution

15 switch gear was put in service in August.

16 And then the last transformer that we were

17 moving was placed in service on November 7.

18 Q So there's no other transformer moves or anything

19 else that had needs to be done to complete Phase 1; it's

20 complete in totality?

21 A That's correct.

22 MS. DAVISON: Okay. I don't have any further

23 questions.

24 JUDGE MOSS: All right. Thank you very much.

25 Any questions from the bench?

0459

1 COMMISSIONER JONES: No.

2 JUDGE MOSS: Mr. Vail, your time was

3 mercifully brief, I'm sure from your perspective. Thank you

4 for being here today.

5 And we should move to our next witness who

6 may not be so brief, and that will be Ms. Siores.

7

8 NATASHA C. SIORES, witness herein, having been first

9 duly sworn on oath, was examined and

10 testified as follows:

11

12 DIRECT EXAMINATION

13 BY MS. WALLACE:

14 Q Good morning, Ms. Siores.

15 A Good morning.

16 Q Could you please state and spell your name for the

17 record?

18 A Certainly. Natasha Siores; N-A-T-A-S-H-A;

19 S-I-O-R-E-S.

20 Q And do you have any corrections for your prefiled

21 testimony in this case?

22 A I do not.

23 MS. WALLACE: Thank you.

24 Ms. Siores is available for

25 cross-examination.

0460

1 JUDGE MOSS: All right. I believe Public

2 Counsel has indicated 45 minutes.

3 MR. FFITCH: Yes, your Honor. We have

4 reduced that somewhat down to one line of questioning, so it

5 should be less time than that.

6 JUDGE MOSS: Thank you.

7 CROSS-EXAMINATION

8 BY MR. FFITCH:

9 Q Good morning, Ms. Siores.

10 A Good morning.

11 Q Could I ask you to please turn to page 7 of your

12 rebuttal testimony? And that's NCS-10T.

13 JUDGE MOSS. What was the page again,

14 Mr. ffitch?

15 MR. FFITCH: Page 7, your Honor.

16 JUDGE MOSS: Thank you.

17 MR. FFITCH: And it's Exhibit NCS-10T.

18 Q (By Mr. ffitch) Are you there, Ms. Siores?

19 A I am.

20 Q And beginning at line 14 you discuss Public

21 Counsel's recommendation for excluding two incidents from

22 the 2012 insurance expense amount from the calculation of

23 the six-year average in the company filing, correct?

24 A That's correct.

25 Q And in that section of your testimony, at line 18

0461

1 you indicate that the amount not covered by insurance for

2 those two incidents is ten million dollars each; is that

3 right?

4 A That's correct.

5 Q And am I correct that the Company's general

6 liability insurance policy includes a ten-million dollar

7 deductible for each claim?

8 A That's my understanding that that's our current

9 deductible, yes.

10 Q All right. So the Company is essentially

11 responsible for the first ten million dollars on each one of

12 those claims?

13 A Yes.

14 Q Can you please turn to Cross-Examination Exhibit

15 NCS-26CX?

16 That is the Company's response to Data Request

17 117.

18 A Yes.

19 Q Do you have that?

20 A Yes, I'm there.

21 Q Now, that data request discusses an incident known

22 as the Wood Hollow Fire, correct?

23 A Yes.

24 Q And in that response, you indicate that the

25 Company removed the Wood Hollow Fire costs from the filing

0462

1 because the fire is currently the subject of ongoing

2 litigation, so the total costs are not known and measurable.

3 That's the nature of your response on the Wood

4 Hollow incident, correct?

5 A It's what the response says.

6 I did not sponsor this data response. The -- what

7 I will need to do here today, for further details on our

8 insurance claims and litigation and our claims process, I

9 need to defer to Mr. Stuver who will be speaking a couple of

10 witnesses after me. Or actually, he's next.

11 In my position for revenue requirements, I can

12 talk about the six-year average and address other questions

13 as I can.

14 But unfortunately, my depth of knowledge of this

15 subject matter, I'm deferring to Mr. Stuver on those

16 specific items.

17 MR. FFITCH: Your Honor, the Company has

18 stipulated to the admission of the exhibit, but I'll be

19 happy to follow up briefly with Mr. Stuver.

20 JUDGE MOSS: Fine.

21 Q (By Mr. ffitch) Can you please turn, Ms. Siores,

22 to Exhibit 25CX, your Exhibit NCS-25CX?

23 A Yes.

24 Q Do you have that?

25 A I do.

0463

1 Q Now, would you agree that this response indicates

2 that each of the two matters that we mentioned earlier, for

3 which Public Counsel removes the ten million dollars, the

4 associated ten million dollars for the deductible amounts,

5 that each of those matters remains unresolved?

6 A That's what the response indicates.

7 For the detail, again I defer to Mr. Stuver.

8 Q All right. Since these two matters remain

9 unresolved, is it known and measurable at this time that the

10 Company will be required to pay the full ten-million dollar

11 deductible for each of those two separate incidents?

12 A That's my understanding.

13 Q It's your understanding that it is a known and

14 measurable expense; that this expense for each incident is

15 known and measurable?

16 A I don't know -- again, I don't know where we are

17 in terms of the litigation.

18 Q This response in 25CX states that the matter is

19 unresolved.

20 MS. WALLACE: I apologize for any confusion.

21 But in the process of preparing for hearing, we realized

22 that quite a few of these responses directed at Ms. Siores

23 are better handled by Mr. Stuver because they don't involve

24 the revenue requirement aspect of an insurance expense, but

25 rather involve specific matters at hand.

0464

1 So for pretty much all of those that involve

2 specific matters, we would ask those questions. He's here

3 today, up next.

4 JUDGE MOSS: He's the next witness.

5 Mr. ffitch, I think it will serve you better if you just ask

6 him the questions. And if he refers anything back to Ms.

7 Siores --

8 MS. WALLACE: You can get mad at me then.

9 THE WITNESS: I will stay in the room.

10 JUDGE MOSS: We'll have the yoyo witness

11 effect.

12 MR. FFITCH: I will just take that up, then,

13 with Mr. Stuver.

14 Q (By Mr. ffitch) I just have one other area, or

15 one other question, if you'll turn to your Exhibit 28CX.

16 That's the response to Data Request -- I'm sorry. 21CX. I

17 apologize.

18 A I'm there.

19 Q And this is the Company's response to Public

20 Counsel 78. And this does indicate that you are the

21 sponsor, so hopefully I'll be okay asking you about this.

22 A Yes.

23 Q In this data request, among other questions, in

24 (d), we asked you to explain the relatively higher amount of

25 costs -- or net expenses, excuse me, for 2012, correct?

0465

1 A That's correct.

2 Q And the answer that you provide in -- to (d) in

3 this response is that while variability is typical, there

4 are certain identified items in 2012 that explain this

5 higher level, including certain fires, an oil spill,

6 personal injury claims, and other matters, correct?

7 A That's correct.

8 Q And do you consider an oil spill to be a normal

9 cost associated with provision of electric service?

10 A I think any of these incidents, you know, this is

11 the purpose that we have insurance. And so the impacts upon

12 other assets that are near our property, I think that while

13 these incidents are unfortunate, they happen in the process

14 of running an electric utility.

15 Q I know some of this information is confidential

16 with respect to some of these claims, so I'm not asking to

17 you go into the confidential material.

18 Is it your testimony that an oil spill is part of

19 the normal ongoing operations of an electrical utility?

20 A It's my testimony that these events for which we

21 incur an insurance liability is part of the variability that

22 one can expect for an operation of our size and for running

23 an electric utility.

24 Q Well, I guess I'm asking specifically whether an

25 oil spill is part of a normal ongoing operational cost that

0466

1 should be included in customer rates.

2 A Again, I think in terms of incidents for which we

3 incur an insurance liability, I think it belongs in the

4 six-year average that we use to determine an appropriate

5 level of insurance expense for the rate effective period.

6 Q So as I understand your testimony, you're saying

7 because you incur liability for it, you're recommending that

8 it be included in rates. That's the rationale, not the

9 nature of the event?

10 A Yes. To the extent that again, it's we're trying

11 to determine an appropriate level of insurance to -- of

12 insurance expense to include in the rate effective period.

13 And since 2011, my understanding has been that we

14 use a six-year average that has been previously stipulated

15 to by all parties to determine that level of expense.

16 MR. FFITCH: All right. Thank you, your

17 Honor.

18 I don't have any other questions. Thank you,

19 Ms. Siores.

20 JUDGE MOSS: All right. I believe Boise

21 White Paper has indicated 20 minutes.

22 MS. DAVISON: Thank you, your Honor.

23 CROSS-EXAMINATION

24 BY MS. DAVISON:

25 Q Good morning. We'd like you to turn to page 6 of

0467

1 your direct testimony, NCS-1T, page 6. Are you --

2 A I am.

3 Q Thank you.

4 If you look at lines 6 through 8, you basically

5 state that for any capital additions under a million dollars

6 -- well, you tell me. For capital additions under a million

7 dollars, how are you treating those?

8 A So the lines you're referencing me to there

9 explain the plant additions that we proposed in this case

10 for pro forma additions. And those plant additions, the

11 nature of those projects were characterized as items that

12 would be placed in service before the rate effective period

13 and greater than $250,000 on a Washington allocated basis.

14 But again, as we had stated earlier, I think

15 Mr. Dalley explained earlier, for our major plant additions

16 we've adopted Staff's position to take those projects that

17 we had proposed in our pro forma adjustment and then to cut

18 off those items at the time of our rebuttal for projects

19 that had been placed in service before that.

20 Q And what about for projects that are under a

21 million dollars?

22 How are you proposing to treat those?

23 MS. WALLACE: Objection. Can we have more

24 clarity around what "treat" means?

25 MS. DAVISON: For ratemaking purposes.

0468

1 MS. WALLACE: Thank you. I didn't know if

2 she meant in testimony.

3 THE WITNESS: So for those less than

4 250,000--

5 Q (By Ms. Davison) No, less than a million?

6 A Less than a million.

7 All of our pro forma plant additions are being

8 proposed to be included in the case as long as they were

9 completed at the time of rebuttal.

10 Q And that is true for projects under a million

11 dollars as well?

12 A Yes.

13 Q Okay. And for the projects under a million

14 dollars, where can we find a description of those to verify

15 that they're used and useful?

16 A All of the projects were described throughout the

17 case in my testimony as well as in my exhibits and

18 supporting work papers there.

19 We have had a substantial amount of discovery on

20 the major plant additions in this case. We've answered

21 several data requests and have updated the requests.

22 We've provided actuals through June, again through

23 August, and then again through September, as well as data

24 requests just a couple of weeks after Thanksgiving and then

25 again just last week. In adopting Staff's position we

0469

1 provided a further update as to actual costs that have been

2 placed in service.

3 Q Thank you, but I'm not referring to major capital

4 additions.

5 I'm concerned about the capital additions from

6 $250,000 to a million dollars. Where have you identified

7 what those projects are on an individual basis?

8 A On an individual basis, again, I've -- they're in

9 my direct testimony. We have descriptions. In my -- it

10 would be NCS-3, page 8.4.4. We provided descriptions there.

11 And again, throughout discovery we've provided

12 substantial amounts of project estimates and updates as they

13 have become actuals. And again we've done that for June

14 actuals, August, September, and again through the last

15 couple of sets of data requests within the last few weeks.

16 Q Before those projects from 250 to a million, the

17 totality of the description of those projects in terms of

18 your case, not responses to discovery but your case, are

19 found in the exhibit that you just referenced; is that

20 correct?

21 A They're covered there, again as well as in

22 supporting documentation we've provided in my Exhibit

23 NCS-16. Just as a matter of or a point of reference. We

24 provide the list of materials that we have provided. It's

25 NCS-16, page 2. And in there we provide -- we point to more

0470

1 places that we have provided information on these projects.

2 And the pages 4 and 5 of that same exhibit, just to provide

3 a snapshot of the project overviews, we provided the 78

4 total files in that data request alone to provide backup on

5 those projects.

6 MS. DAVISON: Okay. Thank you. No further

7 questions.

8 JUDGE MOSS: Any questions from the bench?

9

10 QUESTIONS FROM THE COMMISSIONERS

11 COMMISSIONER JONES: Yes. It's still

12 morning. Good morning.

13 THE WITNESS: Good morning.

14 COMMISSIONER JONES: Can you turn to page 6

15 of your rebuttal, what is what, NCS-10T. It's a few

16 questions on the pension accounting as proposed by Public

17 Counsel. Are you there?

18 THE WITNESS: I am.

19 COMMISSIONER JONES: So just give me a little

20 context here if you would, please.

21 First of all, your actuarial report by Towers

22 Watson, that is not in the record, I don't think. So could

23 you submit that for the record?

24 THE WITNESS: Okay.

25 COMMISSIONER JONES: Is it confidential?

0471

1 MS. WALLACE: I believe it's included as a

2 cross exhibit, but I'll confirm that. But we'll provide it

3 if it's not.

4 COMMISSIONER JONES: So again, Towers Watson

5 prepares a report for you every year, does it not, an

6 actuarial report?

7 THE WITNESS: Before I get too far over my

8 skis, I do want to mention again I may defer to Mr. Stuver

9 as far as some of the accounting for pension and OPEB.

10 COMMISSIONER JONES: That's fine. If we have

11 to go to Mr. Stuver, we will.

12 So what I'm trying to get at is why you're

13 opposing this adjustment from Public Counsel and what this

14 411,000 refers to, and then Local 57 multiemployer plan

15 costs.

16 So in your testimony on page 6, are you

17 asserting that Local 57 -- and by the way, what is Local

18 57? Is that the IBEW? What is that?

19 THE WITNESS: I'm not certain what that is.

20 I know it's one of our --

21 COMMISSIONER JONES: Trade unions?

22 THE WITNESS: Yes.

23 COMMISSIONER JONES: So you assert that it is

24 in the base historical period?

25 THE WITNESS: It is. And our -- the issue

0472

1 that we were raising there is when Public Counsel had

2 proposed their adjustment, they took the cost straight out

3 of the actuarial reporting.

4 COMMISSIONER JONES: Correct.

5 THE WITNESS: And compared that with a number

6 that did not have -- didn't have the Local 57 costs in it.

7 COMMISSIONER JONES: So you're --

8 THE WITNESS: And the Towers Watson report

9 did not.

10 COMMISSIONER JONES: So you're asserting that

11 Public Counsel's adjustment compared apples and oranges: one

12 in the test year it was in and then in rate effective period

13 of 2014 it was out?

14 THE WITNESS: Yes. And I believe in the

15 revised exhibit they adopted that, or corrected that.

16 COMMISSIONER JONES: And then this -- you say

17 in lines 20 and 21, overstates its adjustment by 411,000.

18 So are you willing -- well, first of all, let

19 me get to the principle here. In many other parts of your

20 testimony you are supporting pro forma adjustments that go

21 beyond the test year and into the rate year, correct,

22 whether it's rate based or other adjustments?

23 THE WITNESS: That's correct.

24 COMMISSIONER JONES: But here you appear to

25 be opposing any sort of pro forma adjustment, correct?

0473

1 THE WITNESS: We're opposing the narrow focus

2 of it. Our approach here, as it has been and as it's been

3 accepted by the Commission in the past, was to only move

4 forward or to pro forma just the wage portion of labor costs

5 and not any of the other labor costs, you know, that are

6 non-labor related, such as health care or 401(k) or any of

7 those other items.

8 The adjustment that was proposed by Public

9 Counsel was to take only the pension costs and no other

10 pension -- sorry; and no other labor costs not related to

11 wages.

12 And so our opposition to this is that it's a

13 one-off. And if a pro forma adjustment for all labor costs

14 should be considered, then you should look at other elements

15 of non-wage labor costs.

16 THE COMMISSIONER: Okay. Like single issue

17 ratemaking.

18 But I think in fairness, if you look at Ms.

19 Ramas' testimony, and we'll -- she'll be up later -- on page

20 27, there is something for OPEB, the other post-retirement

21 employee benefits, right?

22 THE WITNESS: Yes.

23 THE COMMISSIONER: So that is another

24 wage-related cost, right, where I think she is proposing an

25 adjustment?

0474

1 THE WITNESS: Yes, it was for pension and --

2 COMMISSIONER JONES: OPEB, right --

3 THE WITNESS: -- both decreases, yes.

4 COMMISSIONER JONES: So the 411, how should I

5 do the math on that?

6 Because I think on the pension part of it,

7 Ms. Ramas' adjustment, total company basis is 11.7 million,

8 Washington allocated 761,000.

9 And then you are, on lines 20 and 21, saying

10 the overstatement of a pension adjustment is 411,000. So

11 are you saying that you're willing to accept the difference

12 between those two numbers, the 761 minus the 537?

13 THE WITNESS: No. We just wanted to make the

14 record clear that if Public Counsel's adjustment were

15 adopted that it should be corrected for that. That was the

16 reason we drew that out.

17 COMMISSIONER JONES: So that's your estimate,

18 what you think the proper comparison of apples to apples, if

19 you include the Local 57 plan that it should be adjusted by

20 411,000?

21 THE WITNESS: That's what that adjustment is.

22 COMMISSIONER JONES: That's all I have,

23 Judge.

24 CHAIRMAN DANNER: So I wanted to ask you

25 about payroll expenses. During the test year,

0475

1 January-December 2013, the FTE levels went down by 115 and a

2 half.

3 And then from June -- or January to June of

4 2014, they went down by another 27.

5 So we have 66 and a half FTE's fewer in June

6 2014 than the average number of employees during the test

7 year.

8 Now, as I understand it, the Company says

9 that these are temporary vacancies and the plan is to fill

10 them. And I'd like to get some information from you about

11 whether that is correct. How soon do you expect to do this?

12 Are you going to expect that there are always

13 going to be -- is there going to be churn so there's always

14 a certain number of vacancies?

15 So I guess I'd better stop with three

16 questions and let you catch up.

17 MS. WALLACE: Chairman, my apologies, but

18 Mr. Stuver is our witness on the FTE levels.

19 CHAIRMAN DANNER: And he's coming next.

20 MS. WALLACE: And he will be next.

21 THE WITNESS: I apologize, Chairman. I

22 didn't want to interrupt you.

23 Mr. Stuver also happens to be our HR witness

24 as well.

25 MS. WALLACE: Pretty much everything just

0476

1 goes to Doug Stuver.

2 CHAIRMAN DANNER: And he'd better not refer

3 it back to you.

4 THE WITNESS: I'll stay in the room.

5 CHAIRMAN DANNER: Then I have no other

6 questions.

7 JUDGE MOSS: Any follow-up?

8 MS. WALLACE: Just a couple of questions, if

9 I may.

10 RE-DIRECT EXAMINATION

11 BY MS. WALLACE:

12 Q Just to clarify, Ms. Ramas did correct her

13 testimony to reflect this change, so that is available to

14 you.

15 So is it your understanding that the oil spill

16 that Mr. ffitch was asking you about was the result of

17 electrical arcing from the Company's facilities?

18 A Yes, that's my understanding.

19 Q And to your knowledge, going to what Ms. Davison

20 was asking you about, to your knowledge has any party

21 challenged the prudence of the projects between 250,000 and

22 one million in this case?

23 A Not to my knowledge.

24 MS. WALLACE: Thank you.

25 JUDGE MOSS: All right.

0477

1 MR. FFITCH: Your Honor, I have a couple of

2 points, if I may.

3 JUDGE MOSS: All right.

4 MR. FFITCH: First of all, I believe

5 Commissioner Jones was asking about the actuarial report.

6 It's my understanding that it's not in the record, but it

7 was produced to us in response to Public Counsel 66.

8 MS. WALLACE: I actually have copies at the

9 hotel and can bring those.

10 CHAIRMAN DANNER: Is that confidential?

11 MS. DAVISON: No. I don't believe so. I'd

12 have to double check. Maybe it is.

13 JUDGE MOSS: Just bring it this afternoon and

14 we'll sort out of the bench request numbers.

15 MR. FFITCH: That would become a bench

16 request, then.

17 (Bench Request No. 4 noted.)

18 MR. FFITCH: The other matter, your Honor, is

19 I'm looking ahead to my Stuver cross and realizing that I

20 have been intending to show him one of Ms. Siores' exhibits,

21 just to ask him some wage and salary questions. And I'm

22 realizing that that could create problems perhaps if he's

23 deferring back to her. She's on the stand right now. I'm

24 not sure whether these questions are better directed to her

25 or Mr. Stuver.

0478

1 JUDGE MOSS: Why don't you identify the

2 exhibit?

3 MR. FFITCH: It's NCS-3, sort of the big

4 revenue requirement exhibit attached to Ms. Siores' direct.

5 It's one page out of that quite large exhibit, page 4.3.6.

6 COMMISSIONER JONES: Which tab are you on,

7 Mr. ffitch?

8 MR. FFITCH: It's Tab 4, O&M adjustment.

9 COMMISSIONER JONES: What page?

10 MR. FFITCH: It's 4.3.6.

11 MS. DAVISON: Based on where I think you're

12 going with it, it would be better directed at Mr. Stuver.

13 MR. FFITCH: Maybe I'll just ask an

14 identification question.

15 MS. WALLACE: We have no objection to you

16 using this.

17 RE-CROSS EXAMINATION

18 BY MR. FFITCH:

19 Q (By Mr. ffitch) So this page, do you have that in

20 front of you, Ms. Siores?

21 A I do.

22 Q This page includes all of the general wage

23 increase adjustments that are being requested by the Company

24 in the case; is that correct?

25 A Yes, this is a monthly summary of the wage

0479

1 increases by union group -- sorry; by employee group.

2 MR. FFITCH: All right. And I do have a few

3 questions about it, but Ms. Wallace has indicated those

4 could go to Mr. Stuver. So that's all I have.

5 MS. WALLACE: And we also, given the amount

6 of information that we've deferred to Mr. Stuver, we have no

7 objection if parties have longer cross-examination of him

8 than they anticipated, obviously.

9 JUDGE MOSS: Well, we allow some latitude

10 with respect to the estimates in any event.

11 Ms. Siores, it appears that your time with us

12 on the stand is complete. We appreciate your being here

13 today and you may step down.

14 I suppose it only is 11:30. I think we

15 should go ahead and start with Mr. Stuver. Sounds like he

16 may be here for hours.

17

18 DOUGLAS K. STUVER, witness herein, having been first

19 duly sworn on oath, was examined and

20 testified as follows:

21

22 DIRECT EXAMINATION

23 BY MS. WALLACE:

24 Q Good morning, Mr. Stuver.

25 A Good morning.

0480

1 Q Could you please state and spell your name for the

2 record?

3 A Sure. My name is Douglas Stuver; D-O-U-G-L-A-S,

4 S-T-U-V-E-R.

5 Q And you're adopting the testimony of Mr. Erich

6 Wilson in this case, correct?

7 A Yes, I am.

8 Q Had do you have any correction or changes to that

9 testimony?

10 A I do not.

11 MS. WALLACE: Thank you.

12 Mr. Stuver is available for

13 cross-examination.

14 JUDGE MOSS: All right. Just in case it was

15 unclear, this witness, Mr. Stuver, adopted Mr. Wilson's

16 testimony from the earlier phase. So your notebooks may be

17 labeled, as mine is, with Mr. Wilson's name.

18 All right. Mr. ffitch, you indicate 30

19 minutes for Mr. Stuver.

20 I don't see any other party indicating

21 cross-examination. So you may proceed.

22 CROSS-EXAMINATION

23 BY MR. FFITCH:

24 Q Thank you. I am going to ask about I think two of

25 the cross exhibits that were identified for Ms. Siores that

0481

1 were then referred on to you.

2 A Okay.

3 Q So I don't know if you have those there, but the

4 first one is NCS-26CX, which is the Company response to

5 Public Counsel Request 117. This is regarding the Wood

6 Hollow Fire.

7 A Yes, I have that.

8 Q All right. And in this response, am I correct

9 that you were asked to explain why the Company was excluding

10 the costs related to the Wood Hollow Fire and why the

11 reasons for exclusion did not apply to the other two 2012

12 incidents that we discussed with Ms. Siores.

13 And this relates that the Wood Hollow Fire was

14 treated by the Company as a subject of ongoing litigation,

15 so therefore not known and measurable, and by contrast, the

16 two incidents that we are raising involve known and

17 measurable costs.

18 That's the Company's position, correct?

19 A I would say that's the position that's outlined in

20 these data request responses. So no dispute on that point.

21 But I will say I have further thoughts on those

22 data request responses that I prefer to expand on at the

23 appropriate time.

24 Q Well, let's just go to the other request that I

25 wanted to look at with you, and that is NCS-25CX, which is

0482

1 the response to Public Counsel 114?

2 A I have that.

3 Q And essentially, just to summarize, that states,

4 does it not, that with respect to those two incidents that

5 we've raised -- well, we asked for an update.

6 And the response is there is no update and the

7 matter remains unresolved, correct?

8 A This is Public Counsel Data Request 114?

9 Q Correct.

10 A I'm sorry. It's referring to a different data

11 request. I'm not clear on what's being updated here.

12 MS. WALLACE: It may be helpful to look at

13 the response to 86 so he knows which events --

14 MR. FFITCH: I'm happy if the witness can be

15 handed 86 if he hasn't.

16 THE WITNESS: I do have that. I just need a

17 moment to refer to 86 to connect the dots here.

18 MR. FFITCH: All right.

19 THE WITNESS: And 86 refers to 78, so if I

20 could have a moment to also refer to 78.

21 MS. WALLACE: And 86, for everybody's

22 information is NCS-22CX, and 78 is NCS-21CX. It's what

23 happens when you try to keep confidential information out of

24 each data request.

25 THE WITNESS: I think I'm current.

0483

1 Q (By Mr. ffitch) All right. So this request in

2 25CX -- the response, rather, states that these matters --

3 there's no update and the matters are unresolved. That's --

4 A Yes.

5 Q All right. Is that still the case?

6 A I would say largely the case, yes.

7 In the case of Wood Hollow we've had ongoing

8 mediation and settlements with the Wood Hollow claimants.

9 In the other fire matters, there's been no change

10 to the Company's view of the liability associated with

11 those.

12 Q All right. Is it your testimony that it is known

13 and measurable at this time that the Company will be

14 required to pay its full ten-million dollar deductible for

15 each of those two unresolved incidents?

16 A Yes. This is where I think I mentioned earlier I

17 have some further thoughts.

18 From my point of view, I believe that all of these

19 claims are known and measurable. You know, we have accrued

20 on our books for these expenses on the basis of the

21 accounting rules, which say if this loss is probable and

22 reasonably estimable, then you have to accrue your best

23 estimate of those losses.

24 We have accrued for Wood Hollow, we have accrued

25 for Chevron, we have accrued for the Williams Creek Fire.

0484

1 And in these different fires and claims, you know,

2 we do have some counterclaims, if you will, where we're

3 seeking recovery from third parties who may have contributed

4 to those or solely been responsible for those.

5 But based on our understanding of the facts in

6 each of those, we feel we have crossed that accounting

7 recognition threshold of it's probable that the loss has

8 been incurred and we can reasonably estimate that.

9 Specifically on these counterclaim items where we

10 might recover dollars back, the accounting rules are also

11 restrictive on that point, where it's easier to record a

12 loss than it is to record a gain, essentially, from an

13 accounting standpoint.

14 So in terms of our pursuit of recovery from these

15 third parties, we can't record that on our books until we

16 actually have a final contract or the cash, either, that

17 would demonstrate that they admit their liability and they

18 are willing to pay and will pay those amounts to the

19 Company. So despite us pursuing those further recovery

20 items, we've not recorded those.

21 There may be some future offset that results. And

22 if and when that future offset occurs, I think the mechanism

23 that Washington currently has in place is very effective at

24 dealing with that.

25 What I mean is when those recoveries occur, that

0485

1 will be an offset to expense and will be part of the

2 six-year averaging that we do to come up with our total

3 claims expense for the Company.

4 So the fact that we are accruing an expense now

5 despite there not being a full and final resolution of the

6 claim, I feel like we are meeting a known and measurable

7 test. The accounting rules are, you know, the basis for our

8 deciding to recognize that.

9 And if the mandate instead was you have to have

10 everything fully and finally resolved, then I think there's

11 a different recovery mechanism that better suits that. And

12 that's more of a cash basis method of recovery that says

13 only what you've paid out is what you should be recovering,

14 not what you've expensed.

15 As I understand it, in Washington, it's a function

16 of what you expense that's the basis for recovery. So if we

17 were to move to a cash basis method, we'd certainly want to

18 make sure that we have a transition, a proper transition

19 that takes place so we, the Company, don't double recover on

20 expenses that have previously been incurred, nor miss claims

21 that have not yet been expensed and frankly that we wouldn't

22 have paid something out unless it's already been expensed.

23 So I think that issue, probably, we don't have to worry

24 about.

25 So maybe just to quickly summarize, if we were to

0486

1 move to a cash method of recovery, we'd want to make sure

2 that we set that up in a way that the Company does not

3 double recover on costs that had previously been expensed.

4 Q Mr. Stuver, was the Company paid out any part of

5 the ten million dollars on either of those two separate

6 claims?

7 A So in the case of Williams Creek, yes. We have

8 settled one portion of the policy exposure.

9 Q And I'm sorry; I'm not asking you to get into

10 confidential material with that question.

11 A Okay. Sorry. I'm not clear on where those

12 confidential boundaries have been drawn.

13 But on one of those two claims, yes, we have paid

14 out a portion of the total liability. It was a relatively

15 small portion, though.

16 The larger portion of that involves fire

17 suppression costs. And those are still ongoing.

18 Q All right. And you had been in your answer

19 discussing some possible recoveries that the company might

20 obtain in connection with counterclaims as I understand it;

21 is that right?

22 A Yes. I don't know if that's the correct legal

23 term. But effectively it's where we're pursuing recovery

24 from third parties that we feel have some liability as well

25 in these.

0487

1 And again, in those cases we haven't reached an

2 advanced enough stage with those counter claims to be able

3 to recognize that as an offset.

4 Q All right. But the matter that we're discussing

5 here is the liability expense of the Company --

6 A Yes, that's correct.

7 Q -- recoveries?

8 A That's correct. However, again from an accounting

9 standpoint, any recoveries would ultimately go against that

10 same expense and be captured in that six-year averaging

11 window that applies in Washington.

12 Q It sounds like in what may be layman terms what

13 you're saying is the Company's preference is to estimate

14 whether they will -- maybe assume that they will pay out

15 these claims and put that into rates. And the customers

16 will pay for that pending some final resolution of the

17 claims down the line, and because of the operation of the

18 accounting mechanisms you're talking about, it will get

19 cleaned up later on?

20 A I would say inherently any time the Company

21 recovers costs on an expense rather than a cash basis, then

22 the driver for recovery is that expense. And in our case

23 the company has recognized that expense.

24 If we set that expense aside and say we haven't

25 paid it out yet and therefore, it doesn't qualify, in my

0488

1 mind we're moving to a different method of recovery. We're

2 now moving to the cash method of recovery, which I do not

3 believe is the policy of this Commission.

4 Q But you still have to know that that expense is

5 going to be known and measurable, don't you?

6 A Yes. And I believe those expenses are known and

7 measurable. We have found for accounting purposes that it

8 is probable that we have incurred those losses for the

9 amounts that we've recorded.

10 Q All right. Let's move on to the area of wages and

11 salaries. And this is where I want to refer to Ms. Siores'

12 schedule that we just talked about.

13 A Sure.

14 Q Do you have a copy of that there? This is again

15 page 4.3.6 from her NCS-3T -- or not 3T, just NCS-3?

16 A Yes, I have that in microfont.

17 Q Yes, you need a magnifying glass with you.

18 First of all, you agree that the start test period

19 that's used in preparing the Company's filing is the

20 12-month period ending December 31, 2013?

21 A Yes.

22 Q And you agree with Ms. Siores that this page that

23 we're looking at shows all of the salary and wage increases

24 that are incorporated in the Company's rate request in this

25 case?

0489

1 A I do.

2 Q And if you could look at the bottom of the page,

3 you see that's a footnote (1) there?

4 A Yes.

5 Q And can you just read that?

6 A Yes. It says, "Projected labor increases

7 supported by planning targets."

8 Q So am I correct -- and we see those shown in the

9 far -- the various lines or rows are footnoted on the far

10 right-hand side of the exhibit right?

11 A Yes.

12 Q So am I correct that for the salary and wage

13 increases identified with the numeral 1 at the end of the

14 row, these are not based on amounts contained in ratified

15 union contracts?

16 A Yes, at the time this was prepared.

17 Q Are there any ratifications that have occurred

18 since this was prepared that you're aware of?

19 A I might have to refer to our team for

20 clarification on that one.

21 Q Okay. Do you want to take a minute to do that?

22 JUDGE MOSS: We can get clarification later.

23 I'll count on the Company to bring that forward.

24 Q (By Mr. ffitch) Mr. Stuver, if you look at the

25 exhibit again, you can see that each of the columns has a

0490

1 month and a year, correct?

2 A Yes.

3 Q And is it correct that this exhibit shows that the

4 Company's including in its rate request projected January

5 2016 increases for nonunion groups?

6 A Yes.

7 Q And also projected February 2016 increases for

8 groups that are identified as not having ratified contracts?

9 A That's correct.

10 Q Would you agree that for the three-month recent

11 Pacific Power & Light Company cases before this Commission

12 the pro forma salary and wage increases did not extend more

13 than twelve months beyond the end of the test period?

14 A Yes.

15 MR. FFITCH: Thank you, Mr. Stuver. Those

16 are all my questions.

17 JUDGE MOSS: Thank you Mr. ffitch. No other

18 party has indicated cross for this witness, but we may have

19 questions from the bench.

20

21 QUESTIONS FROM THE COMMISSIONERS

22 COMMISSIONER GOLTZ: Well, I had none, but I

23 just want to clarify a little bit because of the issue

24 Mr. ffitch raised about the recovery of costs of an

25 incident. And just picking a hypothetical one, not from the

0491

1 record, but assuming a ten-million dollar liability, some

2 accident or whatever, and you are responsible for that.

3 So I gather you said it would show up on your

4 -- it would accrue on your books at ten million dollars, and

5 then that ten million would go into the six-year average?

6 THE WITNESS: Yes.

7 COMMISSIONER GOLTZ: And you said you assume

8 there's a cross claim, which I think is the correct legal

9 term. Two years later you get ten million dollars from a

10 third party. That ten million dollars would be offset and

11 go in the six-year average starting then?

12 THE WITNESS: Yes.

13 COMMISSIONER GOLTZ: So we'd have two

14 overlapping six-year periods, but overall justice would be

15 done, everything would come out even?

16 THE WITNESS: Correct.

17 COMMISSIONER GOLTZ: So the Company would be

18 made whole and the ratepayers would be made whole?

19 THE WITNESS: Correct.

20 COMMISSIONER GOLTZ: I guess my question is,

21 you have a ten-million dollar liability accrued, and then

22 two years later you're at trial with the cross claimant and

23 the cross defendant says, Let's split the different, five

24 million each. Why wouldn't the Company just say, "Sure"?

25 Isn't the incentive then for the Company to

0492

1 be perhaps less than vigorous in pursuing a cross claim

2 because they will have been made whole because the ten

3 million dollars will already be in the six-year average?

4 THE WITNESS: From my perspective, no.

5 I guess the backdrop to that question

6 suggests that if the Company has gotten money from

7 customers, then they're happy and not willing to be more

8 aggressive to further defend our customers. And that

9 certainly is not our belief or practice as a company.

10 We're always looking for ways to try to

11 minimize costs for our customers. And we will certainly

12 aggressively pursue recovery. And it has no bearing, what

13 we've previously recovered or not recovered. It's a matter

14 of what do we think is the most value we can get, whether

15 we're representing the Company, the customers, period.

16 COMMISSIONER GOLTZ: Were you prepped for

17 that question?

18 THE WITNESS: No.

19 COMMISSIONER GOLTZ: No further questions.

20 CHAIRMAN DANNER: So you heard my question

21 earlier when I asked it of Ms. Siores, and it had to do with

22 the staffing levels.

23 Obviously there have been some reductions.

24 And you assert that these are temporary, but they seem to be

25 going for quite some time. At what point do these become

0493

1 just part of the churn, where you're always going to have a

2 percentage of vacancies and we should adjust accordingly?

3 THE WITNESS: Sure. Right. So when we

4 reflect -- let me start with when we prepare our budget,

5 we're reflecting who we believe to be the number of people

6 employed in a full-time equivalent capacity at that time in

7 our plan.

8 In terms of you know, the declines that we've

9 seen, that's been an ongoing partly -- you know, the

10 attrition factor that you've mentioned and partly a

11 conscious effort where we're saying with every vacancy that

12 we experience as a company, is there a way that we can

13 internally absorb that without having to replace that

14 position.

15 That's just a general process of the Company

16 overall, because sometimes you may find yourself managing a

17 department where you're comfortable with the fit as it's

18 currently configured and the workers that you have, but if

19 you lose that one person there may be ways to shift that

20 work around and find a more effective way, cost-efficient

21 way, to manage your business or departmental

22 responsibilities.

23 So I would say those declines that we've seen

24 have been a function of, you know, ongoing attrition that

25 can be challenging in certain areas to replace, as well as

0494

1 just our practice in general of trying to minimize costs.

2 There's a limit to how far you can go with those

3 practices, though. At some point your departments become so

4 thinly staffed that you can't manage the work force or the

5 workload that goes with that anymore. And I feel like what

6 you've seen certainly is steady declines over time in our

7 work force levels, but that's not sustainable for us as a

8 company. We can't keep managing our business with those

9 attrition rates continuing and continue to effectively serve

10 our responsibilities.

11 CHAIRMAN DANNER: Right. But sometimes you

12 just recognize that filling those positions takes longer

13 than it used to?

14 THE WITNESS: Certainly.

15 CHAIRMAN DANNER: I think you face the same

16 challenges in hiring good people sometimes takes longer than

17 hiring other people?

18 THE WITNESS: Yes.

19 CHAIRMAN DANNER: So if you realize those

20 vacancies are going to last longer, then you sort of kind of

21 budget that you're going to have a certain percentage of

22 vacancies.

23 THE WITNESS: Right.

24 CHAIRMAN DANNER: And I don't see that you've

25 really done this. You're saying, okay, we're asking as if

0495

1 we have full staffing, but we don't have full staffing.

2 And is that a temporary situation or a

3 permanent situation?

4 THE WITNESS: Over time we've changed our

5 budgeting practices. We actually, from a work force level,

6 had previously budgeted to include vacancies. We don't

7 budget anymore for those vacancies, meaning that if we have

8 a budgeted work force previously of, say, 6,000 full-time

9 equivalents, included within that was the number of

10 positions at any point in time we thought would be vacant.

11 We've since changed our budgeting practices

12 to remove that vacancy factor. So if we thought there would

13 be 6,000 positions, of which say 300 would be vacant, under

14 today's practices we would budget that as 5700 positions,

15 not 6,000.

16 CHAIRMAN DANNER: So the plan would be,

17 saying you've got a reduction of 66 and a half FTE's lower

18 than the average in the test year, those are vacancies that

19 you're planning to fill during the next twelve months?

20 THE WITNESS: Yes. And the budget figures

21 that you've seen in these data request responses are the

22 prior business plan, so the fall 2013 business plan budget.

23 We have since completed a fall 2014 business

24 plan budget. And the positions that we're showing for 2015

25 as a company are at the end of 2015, 5,377. The test period

0496

1 average full-time equivalents is 5,375.

2 So our budget with no assumed vacancies -- in

3 other words, yes, you know, the 5,377, at any point in time

4 there will be vacancies that we're trying to fill, but we're

5 not counting that as part of our budgeted work force levels.

6 So we are projecting in our budget that we will have a

7 trained work force, you know, on hand at that 5,377.

8 CHAIRMAN DANNER: So the next general rate

9 case, we'll see that you're back up to full staff?

10 THE WITNESS: That's our strong desire, yes.

11 CHAIRMAN DANNER: And then I don't think

12 this was your exhibit, but a question about the -- some of

13 these you use contract folks to fill in short term?

14 THE WITNESS: Yes.

15 CHAIRMAN DANNER: The expenses of that are

16 comparable or similar to actual employee costs. Can you

17 comment on that?

18 THE WITNESS: Yes. I mean, certainly the

19 makeup of the pay for a contract worker would be different

20 than a full-time equivalent employee.

21 We don't pay benefits to those workers. But

22 the rate that we pay for those contract workers, you know,

23 is negotiated. But generally I would believe it at least

24 compensates them at levels that the company would pay and in

25 some cases higher than what the company would pay a

0497

1 full-time equivalent employee.

2 CHAIRMAN DANNER: And then of the 66

3 vacancies we talked about, how much contract labor are you

4 using to backfill those?

5 THE WITNESS: I can't necessarily speak just

6 to the 66 that you're referring to.

7 But in terms of total contract labor for the

8 company as a whole, we have over 400 contractor positions on

9 hand today.

10 CHAIRMAN DANNER: Out of a work force of?

11 THE WITNESS: 5,200 and change.

12 CHAIRMAN DANNER: Close enough.

13 THE WITNESS: Yes.

14 CHAIRMAN DANNER: All right. Thank you.

15 Those are my questions.

16 JUDGE MOSS: Okay. Anything else?

17 COMMISSIONER JONES: Just a question of

18 clarification.

19 That 5,377 number you quoted is PacifiCorp;

20 it includes the three subs, subsidiaries?

21 THE WITNESS: Yes.

22 COMMISSIONER JONES: Pacific Energy, Pacific

23 Power, headquartered in Portland, and Rocky Mountain Power

24 headquartered in Salt Lake City?

25 THE WITNESS: That's correct. All of the

0498

1 numbers, including the numbers quoted in this case, are at

2 that level.

3 JUDGE MOSS: All right. Any follow-up?

4 MS. WALLACE: Just two questions, your Honor.

5 MR. FFITCH: Your Honor, I'm sorry. Because

6 a new topic came up in questions from the bench, would it be

7 okay if I asked a couple of follow-up questions on the

8 staffing levels before Ms. Wallace has her batting cleanup?

9 JUDGE MOSS: You can go first.

10 MR. FFITCH: Thank you. I appreciate that.

11 RE-CROSS EXAMINATION

12 MR. FFITCH:

13 Q Would you agree, Mr. Stuver, that from the start

14 of the test here, from January 2013 to June 2014, the FTE

15 count for PacifiCorp -- and you can tell me if I should be

16 saying PacifiCorp or Pacific Power -- but the FTE count

17 declined?

18 A Yes.

19 Q And --

20 A These are PacifiCorp head count.

21 Q Sorry. Could you restate that?

22 A The head count in the data responses are

23 PacifiCorp.

24 Q And that did show a decline between January 2013

25 and June 2014?

0499

1 A Yes, that's correct.

2 Q And isn't it also true that the employee FTE --

3 sorry, back up -- the FTE equivalent declined further below

4 the June 2014 level up until November 2014 until there was a

5 slight increase in November?

6 A Correct.

7 MR. FFITCH: Okay. Those are all the

8 questions. Thank you, your Honor.

9 JUDGE MOSS. All right.

10 RE-DIRECT EXAMINATION

11 BY MS. WALLACE:

12 Q So when you were discussing the Williams Creek

13 Fire with Mr. ffitch, you mentioned that the remaining costs

14 that have not been settled by the fire suppression costs.

15 To your knowledge, did we receive an estimate of

16 the fire suppression costs from the Department of Forestry?

17 A We did.

18 Q You don't need to say what it is.

19 A I won't. But the amount we accrued is based on

20 that report.

21 Q And auditors have to confirm that it's appropriate

22 to book the liability expense, correct?

23 A Yes. I mean in fairness, the auditors have a

24 materiality threshold. They audit our books as a whole, and

25 that is one item, and I would say that liability is one of

0500

1 the more material items in our financial statements.

2 MS. WALLACE: Thank you.

3 JUDGE MOSS: All right. Our timing is

4 superb.

5 Mr. Stuver, thank you for being with us on

6 the stand today.

7 And after lunch -- we're going to take our

8 break now -- there's a bench question for Coughlin. So if

9 Ms. Coughlin can be made available by phone at say 1:15,

10 that would be most convenient. And so that will be the end

11 of our break, 1:15. All right?

12 MS. MCDOWELL: Is there anything for Ms.

13 Crane or Mr. Ralston? We'd be happy to --

14 MS. WALLACE: I just wanted to make sure,

15 since --

16 JUDGE MOSS: Apparently not. Off the record.

17 (Luncheon Recess.)

18 JUDGE MOSS: Back on the record, please.

19 Mr. Oshie for Staff has indicated that there

20 are apparently some slight revisions to a footnote for Mr.

21 Kouchi's testimony. And you've discussed the matter with

22 the Company and they are fine with an errata?

23 MS. WALLACE: Apparently, yes.

24 JUDGE MOSS: Apparently your client didn't

25 discuss it with you. That's all right. You got direction

0501

1 from the right source.

2 So then Mr. Chriss's Exhibit, or what was

3 that exhibit that you just showed me?

4 MS. WALLACE: That was Mr. Wiedman.

5 JUDGE MOSS: Mr. Wiedman. Okay.

6 MR. WIEDMAN: I have with me today a data

7 request, WUTC Data Request No. 11, which updates the number

8 of PacifiCorp's net metering customers as of October 21,

9 2014.

10 I've spoken with PacifiCorp's counsel, and

11 they've agreed to allow me to stipulate that in the record.

12 And if it's all right with you, then I will file that

13 tomorrow and serve it on the parties electronically, and

14 that will allow me to waive cross with Ms. Steward.

15 JUDGE MOSS: That's fine. What's the new

16 number?

17 MR. WIEDMAN: Good question.

18 JUDGE MOSS. It was 149 before, as I recall.

19 MR. WIEDMAN: That would be MEF-9, your

20 Honor.

21 JUDGE MOSS: No, I meant the number of

22 customers.

23 MR. WIEDMAN: Sorry.

24 MS. WALLACE: 227.

25 MR. WIEDMAN: It is 227, your Honor.

0502

1 JUDGE MOSS: I was just curious. All right.

2 Thank you very much for that.

3 Now, Ms. Coughlin is on the phone.

4 Ms. Coughlin, because of our procedures being

5 what they are, you'll need to be sworn.

6

7 BARBARA A. COUGHLIN, witness herein, having been first

8 duly sworn on oath, was examined and

9 testified as follows:

10

11 JUDGE MOSS: Thank you very much. Your voice

12 is a little faint. So if you can maybe speak up just a

13 little bit when we proceed here, your counsel is about to

14 put you on the stand.

15 THE WITNESS: Okay.

16 DIRECT EXAMINATION

17 BY MS. WALLACE:

18 Q (By Ms. Wallace) Good afternoon, Ms. Coughlin.

19 A Good afternoon.

20 Q Could you please state and spell your name for the

21 record?

22 A Yes. My name is Barbara, B-A-R-B-A-R-A; Coughlin,

23 C-O-U-G-H-L-I-N.

24 Q And do you have any changes to your prefiled

25 testimony in this case?

0503

1 A No, I do not.

2 Q Thank you.

3 MS. WALLACE: She's available.

4 JUDGE MOSS: The questions for Ms. Coughlin

5 are from the bench.

6

7 QUESTIONS FROM THE COMMISSIONERS

8 CHAIRMAN DANNER: All right. This is

9 Chairman Danner. And I want to thank you for making

10 yourself available this afternoon. I appreciate it.

11 I don't think this is going to take too much

12 time. I wanted to ask you, though, about your testimony

13 with regard to the non-radio-frequency meter accommodation

14 charge. As I understand it, this is basically -- this is to

15 allow people who have concerns about radio frequency,

16 whether you agree or disagree that those are valid concerns,

17 you were nonetheless offering them an opportunity to change

18 out the smart meter for a non-radio-frequency meter; is that

19 correct?

20 THE WITNESS: Well, we are offering a

21 nonstandard meter change. But we do not have smart meters

22 as part of our system. We --

23 CHAIRMAN DANNER: Okay. I'll -- I was using

24 that as shorthand for radio-frequency-meters, or standard

25 meters.

0504

1 THE WITNESS: Okay.

2 CHAIRMAN DANNER: So you agree with that?

3 THE WITNESS: Yes.

4 CHAIRMAN DANNER: Okay. So on page 12 of

5 your testimony, you're proposing an upfront one-time fee of

6 $240. And that caught my eye, because I'm aware of what

7 goes on in a number of other states and a number of other

8 companies, including some that are part of the PacifiCorp or

9 Berkshire Hathaway family, and I'm seeing that prices that I

10 see for this service in other jurisdictions are considerably

11 less.

12 I was wondering if that's your understanding

13 as well?

14 THE WITNESS: The prices do vary, Chairman

15 Danner, depending on the jurisdiction.

16 And that purely goes back to looking at the

17 cost within each state based on the cost of the wages. We

18 have different contracts in different locations. And so

19 costs vary.

20 We also use our mobile tracking -- mobile

21 tracking management system determines the time. So each

22 state's variables, the wages, the time, does differ.

23 And so we used what was specific to

24 Washington when we created, developed that fee. And that

25 fee does cover the installation as well as the subsequent

0505

1 removal when that customer leaves.

2 CHAIRMAN DANNER: So these -- I mean, I'm

3 looking at, for example, in Sacramento, SMUD, would you have

4 any reason to disagree that the charge is $127 with a $15 a

5 month meter reading fee?

6 THE WITNESS: I do not have any information

7 on another utility.

8 CHAIRMAN DANNER: Or NB Power, where it's

9 $98.75, because these seem like striking differences.

10 And when I looked at your exhibit, BAC-3 --

11 THE WITNESS: Right.

12 CHAIRMAN DANNER: I have a few questions on

13 that. I guess I'll start at the bottom of the page.

14 Why is it that there are some times when it's

15 a one-way trip and other times it's a two-way trip?

16 Can you explain that to me?

17 THE WITNESS: It would depend on which part

18 of the process they would be doing. Like if you're going

19 out for a meter reading and it's a special meter reading

20 where that's the only thing they have to do, is go get that

21 manual meter reading, it's dependent on the work whether

22 it's a one-way or two-way.

23 I guess I would ask for more specifics, which

24 one concerns you?

25 CHAIRMAN DANNER: Well, let's go through what

0506

1 is the process, then, for installing a non-radio-frequency

2 meter?

3 And you go through the cost, but maybe you

4 could just sort of describe for me what has to be done in

5 terms of going out and replacing that meter and then what is

6 done with the meter.

7 THE WITNESS: Okay. So when the call comes

8 in, an order would be dispatched to the metering group.

9 They would have to get from their stock the nonstandard

10 meter.

11 They would have to go to the site. They

12 would have to do the removal of the nonstandard meter, they

13 are -- the standard meter to put on the nonstandard meter.

14 They would have to come back to the shop.

15 They would have to do all their paperwork to make sure the

16 meter exchange is shown within the system. They would have

17 to turn that meter back in the shop because it would have to

18 be tested as it came back in, and then it would have to go

19 through the inventory process after the testing to get put

20 back into inventory.

21 CHAIRMAN DANNER: So on line 1B where it says

22 less standard meter cost, that $31 is the cost of the

23 standard meter?

24 THE WITNESS: Right. Right. So what we did

25 was end up charging the full cost of this nonstandard meter.

0507

1 We're giving them the credit for what a standard meter would

2 cost. So they're just paying the incremental cost of the

3 nonstandard meter.

4 CHAIRMAN DANNER: And then testing and

5 restocking actually costs more than the price of the meter?

6 THE WITNESS: Yes, doing the test, right.

7 CHAIRMAN DANNER: So then on line 3C, you're

8 also testing and restocking the removed meter. Is that a

9 different one than the one on 2D?

10 What's going on there?

11 THE WITNESS: That's when it comes back. So

12 when the customer then goes to leave the system, we would

13 then have to go back out and repeat the process and take out

14 the nonstandard meter, put in a standard, bring that meter

15 back to the shop and go through that process.

16 CHAIRMAN DANNER: So in other words, you are

17 putting in the one-time cost, the cost of that customer

18 eventually leaving or dying or moving out of the system, so

19 that you would install a standard meter in that residence?

20 THE WITNESS: Right. Right. So that

21 standard meter then can be picked up in the -- with the

22 automated meter reading system so that we don't have the

23 manual metering continuing to go on when the new customer

24 comes in.

25 CHAIRMAN DANNER: Okay. And again, for the

0508

1 MTX, the meter exchange, you have the cost there as a

2 one-time -- as a one-way trip, but for the MSR and GSR

3 that's a two-way trip.

4 And again can you explain why you bill one as

5 a one-way and the others at two-way?

6 THE WITNESS: Just a moment and I'll look at

7 that.

8 That is because that's a scheduled trip. So

9 someone especially is assigned to go do that, to go there

10 and back as opposed to when it is just done as part of the

11 normal route where they go from Address A to Address B.

12 CHAIRMAN DANNER: So the meter exchange is

13 going -- that person is going there anyway?

14 THE WITNESS: It's just part of their regular

15 work schedule.

16 CHAIRMAN DANNER: Okay. so it's billed as a

17 one-way trip.

18 THE WITNESS: Yes.

19 CHAIRMAN DANNER: On line -- Footnote 2 it

20 says the time listed to test restock is based on a meter

21 engineering study.

22 Can you explain, what is that meter

23 engineering study? Who did that?

24 THE WITNESS: That is our meter engineering

25 department. They did an analysis for us to identify the

0509

1 time that their folks were doing that work for a short time

2 because that is not -- the rest of these calculations came

3 from work order data that was within the application that

4 manages their work. The meter restocking, that part is not

5 included in any application where we have an automated

6 tracking of time. So they did a study so that we would be

7 able to identify how much time that actually took.

8 CHAIRMAN DANNER: Okay. And there are some

9 utilities around the country that don't provide any

10 opt-outs. There are some that require opt-ins for smart

11 meters.

12 Did you have any discussions about whether to

13 provide this service at all?

14 THE WITNESS: We discussed -- we get a number

15 of letters from customers who monitor through the Internet

16 what's going on in other areas with regard to smart meters.

17 And because customers don't necessarily understand the

18 difference in the meters that we currently have in the

19 field, the one-way communication technology that we refer to

20 as AMR meters, customers would -- not just Washington

21 customers, but throughout our six jurisdictions would

22 communicate to us that they did not want the smart meter

23 technology, that they knew we were driving down and we were

24 reading.

25 So the discussion was yes, let's give those

0510

1 customers who in their minds have legitimate concerns about

2 this technology that that is a problem for them, an

3 opportunity to not have that meter at their location. So it

4 was purely an accommodation for customers who have a belief

5 that that meter is a problem for them.

6 CHAIRMAN DANNER: And are these -- how many

7 such requests have you had inside the Washington service

8 territory?

9 THE WITNESS: You know, I'm sorry, Chairman

10 Danner. I don't have that.

11 And when I learned of this call today, the

12 gentleman who keeps those records is actually on vacation,

13 so I couldn't get that. And in case that was a question you

14 had, I'm sorry. But we can follow up.

15 I can tell you we have it in another

16 jurisdiction. It's been that way now for over a year. And

17 we probably have installed around 20-some in Utah.

18 CHAIRMAN DANNER: Okay. Okay. So we're

19 talking about a handful.

20 Are they more concerned about radiation or

21 about privacy?

22 THE WITNESS: It's mixed. But I would say

23 that more of them are the radio frequency and their health

24 than privacy. But we occasionally get one with privacy

25 concerns.

0511

1 CHAIRMAN DANNER: Thank you. That's all the

2 questions I had, and I appreciate your time today.

3 THE WITNESS: You're welcome.

4 JUDGE MOSS: Commissioner Goltz has a

5 question.

6 COMMISSIONER GOLTZ: Thank you. Ms.

7 Coughlin, this is Commissioner Goltz. So following up on

8 the exhibit, BAC-3, I see that the hourly rate for the

9 manual reading is 64.74 and the hourly rate for a so-called

10 meterman up above on line 2 is $98.39.

11 What's included in those costs?

12 Is that -- I assume it's salary and benefits,

13 but what else?

14 THE WITNESS: Right. The activity rate is

15 just a general wage rate. And I can't answer exactly what's

16 in the activity rate, but it's referred to as an activity

17 rate. And they're different because it's two different work

18 classifications that do that type of work.

19 COMMISSIONER GOLTZ: Sure. I understand the

20 difference. I'm sure there's a difference.

21 But I guess my question is, does that include

22 some portion of allocated overhead or is this cost study

23 that you've -- the Company has done here simply the

24 incremental costs of the -- just directly attributable to

25 the installation and removal of the meters?

0512

1 THE WITNESS: This is their wages and some

2 portion of the allocated overhead, as you've mentioned.

3 COMMISSIONER GOLTZ: So it's not just that's

4 specifically attributed to this function, but there's going

5 to be some of the general company overhead in this as well?

6 THE WITNESS: Right. But the cost calculated

7 for this purpose is that activity rate times whatever

8 portion of an hour the work is.

9 COMMISSIONER GOLTZ: Right. And this is -- I

10 just noticed this, but I see that the travel time in line

11 2(C) for installation of a meter is 33 one-hundredths of an

12 hour and the travel time to read a meter is 29

13 one-hundredths.

14 Is that some rounding error?

15 THE WITNESS: No. It's a study based on how

16 many trips to do that type of work. That's where I was

17 referring to we used our work management system to say how

18 many of these will we do, what is the average amount of time

19 that it takes to do it, to use the actual data to make those

20 determinations.

21 COMMISSIONER GOLTZ: And under your proposal,

22 for the installation of the non-radio-frequency meter, if

23 someone wants that they are charged in effect twice, once

24 for installation and once for the removal, even if they

25 don't remove it?

0513

1 THE WITNESS: They're charged for the removal

2 because that meter will come out when that property changes

3 hands. It will go back to whatever the standard is at the

4 time so that it's capable to use the existing meter reading

5 technology that would be in existence at the time the

6 customer leaves.

7 COMMISSIONER GOLTZ: Right. But that seems

8 unusual to me that you would charge somebody -- you may

9 never charge some people because they may live in their

10 house for decades?

11 THE WITNESS: They may live there for

12 decades, but as soon as that customer is no longer there,

13 that meter will be removed. And they are the ones who asked

14 for the special meter; therefore, that's the reason we've

15 included the removal, is we have to take that nonstandard

16 meter out and put the standard back in. The next person did

17 not ask for the nonstandard meter. So our belief is that

18 the responsibility to put it back the way that is, that cost

19 should go to the person that asked for it.

20 COMMISSIONER GOLTZ: I have one question, or

21 two questions on a different topic.

22 One is the so-called field visit charge that

23 you describe on page 4 of your testimony?

24 THE WITNESS: Yes.

25 COMMISSIONER GOLTZ: So you're proposing

0514

1 added the language where -- did you clarify that the

2 disconnection charge would only be incurred when it's due to

3 an action by the customer, correct?

4 THE WITNESS: Right. We did propose just

5 clarifying the language. We're not proposing to change our

6 process, but just to clarify the language.

7 COMMISSIONER GOLTZ: And one of the -- then

8 in line 21 --

9 CHAIRMAN DANNER: Is that Rule 11D?

10 I believe that's been withdrawn.

11 MS. WALLACE: That's correct.

12 COMMISSIONER GOLTZ. Then never mind.

13 CHAIRMAN DANNER: I have one more question.

14 Ms. Coughlin, when the meter reader --

15 currently for a standard meter how is that meter read?

16 Is the information fed to a central location,

17 or do you have a driver going down the streets and picking

18 up that information?

19 THE WITNESS: We have a driver that goes down

20 the street with a van with a mobile device that picks up

21 readings from all around.

22 So when we are not able to use that

23 technology, then we have to have a special order created for

24 someone to go out and physically walk up and get that read

25 and then get it input into our system.

0515

1 CHAIRMAN DANNER: So is it -- would it be

2 possible, then, for the person who's driving down the

3 street, since there's only going to be fewer than 20 in the

4 entire service area, that that person could simply stop at a

5 house where he knows there's a nonstandard meter, walk to

6 the curb, read that meter, and walk back to the truck and

7 continue driving?

8 THE WITNESS: I have been told that that is

9 not -- it does not work for us efficiently; that in order to

10 insure that we get the read, a special order that is to be

11 created because of the way the meter reading system is

12 designed. But...

13 CHAIRMAN DANNER: I used to be a paper boy

14 when they had newspapers. And, you know, we had those kind

15 of things arise where some people had a Sunday paper and

16 some people didn't. And it seems like if you know you have

17 one on your route, that you could stop, walk to the house

18 and come back. So you know, it could even be a paper sticky

19 note in the truck. But --

20 THE WITNESS: Well -- I'm sorry I apologize.

21 CHAIRMAN DANNER: I'm just trying to explore

22 if there are ways we could bring this cost down. It does

23 seem to be a higher monthly cost or up-front cost than I've

24 seen in other jurisdictions.

25 THE WITNESS: My understanding is when the

0516

1 van goes out and it pulls in these reads, it's pulling in

2 quite a large area. So it's not necessarily -- they may not

3 be directly in front of that house.

4 So I'm sorry I don't have any other further

5 explanation for you.

6 CHAIRMAN DANNER: That's fine. Thank you.

7 JUDGE MOSS: Any follow-up?

8 MS. WALLACE: No, your Honor.

9 JUDGE MOSS: All right. Thank you,

10 Ms. Coughlin. We appreciate your being on the phone with us

11 today.

12 Let's get Ms. Steward on the stand, please.

13

14 JOELLE R. STEWARD, witness herein, having been first

15 duly sworn on oath, was examined and

16 testified as follows:

17

18 DIRECT EXAMINATION

19 BY MR. LOWNEY:

20 Q Ms. Steward, could you please state and spell your

21 name for the record?

22 A My name is Joelle Steward; it's J-O-E-L-L-E,

23 S-T-E-W-A-R-D.

24 Q And Ms. Steward, did you file prefiled testimony

25 in this case?

0517

1 A Yes.

2 Q And do you have any corrections to that testimony

3 today?

4 A I do not.

5 MR. LOWNEY: Thank you.

6 Ms. Steward is available for

7 cross-examination.

8 JUDGE MOSS: Thank you. And Staff?

9 MR. OSHIE: We waive cross.

10 JUDGE MOSS: All right. Mr. Purdy, do you

11 have questions for Ms. Steward?

12 MR. PURDY: I do not.

13 JUDGE MOSS: Alliance for Solar Choice?

14 MR. WIEDMAN: I waive also, your Honor.

15 JUDGE MOSS: And Walmart Stores?

16 MR. ROBERTS: We also waive, your Honor.

17 JUDGE MOSS: Any questions from the bench?

18

19 QUESTIONS FROM THE COMMISSIONERS

20 COMMISSIONER GOLTZ: I was going to prepare

21 my questions during all this other cross.

22 But a couple of things: Ms. Steward, on the

23 basic charge proposed increase, you state on page 2 of your

24 testimony that the proposed basic charge is in line with the

25 average basic charge for customers in Washington.

0518

1 THE WITNESS: Page 2 of my rebuttal?

2 COMMISSIONER GOLTZ: Must be rebuttal, yes.

3 THE WITNESS: Oh, yes.

4 COMMISSIONER GOLTZ: And isn't it true that

5 among investor-owned utilities in Washington, your basic

6 charge would be more than double or about double what the

7 other IOU's charge?

8 THE WITNESS: I believe so.

9 COMMISSIONER GOLTZ: And also be double the

10 larger public utilities. I mean, the way the average works

11 out is because you include in your sample a whole bunch of

12 little -- relatively small publicly owned utilities that

13 have relatively high basic charges?

14 THE WITNESS: Right. And that sample is

15 shown on JRS-20, where we just pulled all of the basic

16 charges that we could find in Washington.

17 COMMISSIONER GOLTZ: And just an average of

18 the charges; it's not weighted by customer count?

19 THE WITNESS: No.

20 COMMISSIONER GOLTZ: Then I have a question.

21 One of the -- somewhere in the record that's discussion of a

22 possibility of a minimum bill as opposed to a higher fixed

23 charge. And there's been considerable discussion in the

24 literature, at least, about that.

25 And I'm wondering whether the Company

0519

1 considered a minimum bill as a means to apparently address

2 the concern of increased use of distributed generation or

3 for customers who may otherwise not be contributing to their

4 share of fixed costs?

5 THE WITNESS: No. A minimum bill is just

6 another way of having the same fight, I think. And in my

7 view --

8 COMMISSIONER GOLTZ: I'm sorry; the same

9 fight?

10 THE WITNESS: The same fight on how much of a

11 basic service or basic charge that a customer should pay, a

12 minimum level.

13 But a minimum bill kind of conflates

14 different types of costs into this sort of -- it's not even

15 a fixed charge, you know, because there's some energy

16 associated within that amount. And I think it's -- we have

17 a minimum bill in Utah. It really does nothing for us.

18 It's less than or about 1 percent of our bills in Utah

19 actually hit that minimum bill. It's --

20 COMMISSIONER GOLTZ: Wait. Then it's not a

21 minimum bill. All of your bills should hit the minimum

22 bill.

23 THE WITNESS: Well, everybody exceeds it, but

24 the only ones that actually get charged that minimum bill

25 impacts about 1 percent.

0520

1 COMMISSIONER GOLTZ: Oh, meaning that --

2 THE WITNESS: It would otherwise be less than

3 the minimum bill.

4 COMMISSIONER GOLTZ: But doesn't that minimum

5 bill address the issue that's raised by especially

6 conservation advocates, that you then don't have to have the

7 volumetric rate be less; in other words, you can still send

8 price signals through your volumetric rate through a minimum

9 bill as opposed to a large fixed charge?

10 THE WITNESS: No. So we still have pricing

11 rules through our energy charges. We're still proposing

12 that most of the energy usage be through energy charges.

13 We're not proposing to decrease our energy charges.

14 And with a minimum bill, you're looking at

15 the first -- depends on what it is. I think in Utah it ends

16 up being about the first 77 kilowatt hours that are within

17 that minimum bill of eight dollars.

18 But that sends a confusing price signal, I

19 think, for those customers because you're mixing energy use

20 with this basic service charge. And it really moves away, I

21 think from the transparency I'm trying to add to our rates.

22 I did unbundling in order to try to add some

23 transparency to what kind of costs are being recovered and

24 what proportion of those costs impact your bill.

25 And a minimum bill in my view just really

0521

1 kind of conflates it. And we end up with the same fight

2 about what level should that minimum bill be as we would

3 have with a basic charge. If we talked about a minimum bill

4 of $50, we could probably talk. But you know, we're looking

5 at a minimum bill of eight dollars --

6 COMMISSIONER GOLTZ: I thought you were

7 negotiating here.

8 MS. STEWARD: No, I know. Well, in a way we

9 are.

10 COMMISSIONER GOLTZ: So who proposed the

11 minimum bill in Utah?

12 THE WITNESS: It's been in place for a long

13 time.

14 COMMISSIONER GOLTZ: Was that at the

15 company's instance?

16 THE WITNESS: That was way before my time. I

17 don't know.

18 COMMISSIONER GOLTZ: I have no further

19 questions.

20 COMMISSIONER JONES: Ms. Steward, good

21 afternoon.

22 THE WITNESS: Good afternoon.

23 COMMISSIONER JONES: I'm going to be

24 referring to your rebuttal testimony, JRS-13T, if you could

25 turn to page 2. And this is the summary of a fairly -- you

0522

1 spent 50 pages on your rebuttal. That's a lot.

2 THE WITNESS: I know.

3 COMMISSIONER JONES: So in spite of Staff's

4 proposal, the proposal by Mr. Twitchell, you are still

5 sticking with the $14 number. That's the second bullet from

6 the top, lines 6 and 7.

7 So why are you -- did you take a serious look

8 at his proposal?

9 THE WITNESS: Yes.

10 COMMISSIONER JONES: And what are your

11 primary reasons for not adopting 13 instead of 14?

12 THE WITNESS: So we get pretty close to the

13 same amount, you know. We propose 14, they propose 13. But

14 we got there in two different ways.

15 So we've proposed to include costs associated

16 with poles and conductors in addition.

17 So he included all of the costs of

18 transformers in addition to meter services and retail costs.

19 We proposed all retail costs, meters, and

20 services, but then half of the transformer and half of the

21 poles and conductors.

22 So we got pretty close to the same thing.

23 But we just got there in different ways.

24 COMMISSIONER JONES: Okay. And then in your

25 fourth bullet, you state -- this regards the strong signal

0523

1 for conservation. And you state, "Nearly 90 percent of an

2 average customer's bill is based on usage and only 11

3 percent due to the basic charge."

4 So is that from your own data under the

5 current rate design, or is this based on a national study?

6 THE WITNESS: No, this is data from the

7 average use in our service area, the average customer using

8 1300 kilowatt hours.

9 COMMISSIONER JONES: So that's based on 1300

10 kilowatt hours per month, which is your average use?

11 THE WITNESS: Yes.

12 COMMISSIONER GOLTZ: Okay. And then the next

13 bullet -- and maybe you get into this in detail later -- but

14 could you just expand upon No. 4, where you say one of the

15 reasons you don't like the third inverted block is it,

16 quote, will increase the risk of cost recovery for the

17 Company?

18 THE WITNESS: Right.

19 COMMISSIONER JONES: So why is that the case?

20 THE WITNESS: Well, you move -- what

21 Mr. Twitchell does is he reduces the energy charges for the

22 first two blocks, and he moves the first block to 800

23 kilowatt hours.

24 But then that shifts revenue into that second

25 block, or his new third block, actually, the second and the

0524

1 third, but mainly in that third block for usage over 1700

2 kilowatt hours.

3 We have a lot of electric heat homes. We

4 have nearly 60 percent of our customers have electric heat

5 homes.

6 COMMISSIONER JONES: 60?

7 THE WITNESS: It's nearly 60 percent. I'm

8 sure I have it somewhere in my exhibits.

9 I know it was in our end use survey that we

10 did. We have the data that show how many electric heat

11 homes. I want to say 55 percent. But it shifts usage to

12 those --

13 CHAIRMAN DANNER: 55?

14 THE WITNESS: I can find --

15 CHAIRMAN DANNER: Just give me the

16 neighborhood.

17 THE WITNESS: Somewhere between 50 and 60

18 percent.

19 COMMISSIONER JONES: You don't have to find

20 that now.

21 THE WITNESS: Actually, now I feel like I

22 have to check.

23 COMMISSIONER JONES: You've got Chairman

24 Danner and Commissioner Jones both querying you on this.

25 You'd better respond.

0525

1 THE WITNESS: I'm going to go with about 50

2 to 60 percent are electric heat homes.

3 So electric heat is going to be highly

4 subject to weather. So if we move more of our revenue

5 recovery into that tail block rate, we're going to be more

6 subject to recovery of our fixed cost due to weather.

7 So while on the one hand we have an increase

8 in the basic charge, it kind of gets taken away a bit when

9 you move a lot of revenue recovery into that tail block

10 that's going to be so subject to weather and other changes

11 in the use of conservation and declining use.

12 COMMISSIONER JONES: So you're mainly

13 concerned about rate recovery in the third block due to

14 weather, in the tail block?

15 THE WITNESS: Yes, as well as -- what is the

16 fifth number there? The unintended consequence of sending

17 an uneconomic price signal. The problem with a tail block

18 rate or just inverted block pricing anyway is that it's

19 really hard to make it cost based.

20 Energy block pricing, tiered blocks, are

21 really policy driven. But when we start increasing that

22 tail block, it's kind of artificial -- and the Staff

23 proposal gets up to 12 cents -- we're going to be sending

24 some sort of signal to customers that could encourage the

25 growth of distributed generation in an uneconomic fashion

0526

1 and increase the benefit to those current customers before

2 we really examine is that a true benefit or how much of a

3 benefit should those customers be getting.

4 COMMISSIONER JONES: But if this Commission

5 has a policy of encouraging DG, what's wrong with that?

6 And I think it's actually referred to in the

7 Energy Independence Act that another witness referred to

8 this morning, more DG. I would agree with you, it's kind of

9 a policy call.

10 But if we disagreed with you on whether

11 that's good or bad, what's wrong with that?

12 THE WITNESS: Well, I think the policy act,

13 or -- I mean, it talks about cost-effective DG. And we

14 haven't really examined in this state -- there's an ongoing

15 proceeding about what is cost-effective.

16 And also as part of that it's going to end up

17 shifting costs to those nonparticipants who can't or are

18 unwilling to do DG.

19 COMMISSIONER JONES: Okay. If you can turn

20 to page 38 of your testimony, this gets into the elasticity

21 question.

22 THE WITNESS: Yes. Okay.

23 COMMISSIONER JONES: So elasticity, as we

24 were just discussing, is a big component of the analysis on

25 residential use if we do have a third block.

0527

1 So did you refer to any other study besides

2 this 2006 NREL study quoted in line 5 and 6, which is also

3 in Mr. Twitchell's testimony, or did you just replicate the

4 short-run load reduction of 0.23 percent and then the

5 long-run load production of 4.37?

6 THE WITNESS: We used the same study that

7 Mr. Twitchell did. And in fact, one of our consultants in

8 the IRP conservation potential study had referenced the same

9 study for elasticity. So we just used it to replicate.

10 COMMISSIONER JONES: Okay. So you did not

11 use any other national study or any other consultant study

12 out there, because I think there are quite a few out there?

13 THE WITNESS: That's the thing with

14 elasticity, is they're a little hard to pin down.

15 COMMISSIONER JONES: Right. And then you

16 conclude -- you re-ran the numbers, and basically could you

17 just walk us through that in -- what exhibit is that?

18 That is JRS-21?

19 THE WITNESS: 21.

20 COMMISSIONER JONES: So can you turn to 21

21 and just kind of walk me through how you did this?

22 THE WITNESS: Yes.

23 COMMISSIONER JONES: So you have the Staff

24 proposal on the left, the Company in the middle, and then

25 the Staff proposal revised with a Company revenue

0528

1 requirement. So that is your revenue requirement, 31.7

2 million, that you imposed on the Staff proposal, as I

3 understand it?

4 THE WITNESS: Yes. That was our attempt.

5 So I'll start with the Staff. So the Staff

6 analysis that is presented by Mr. Twitchell only looked at

7 that usage over 2,000.

8 So we replicated it to take into account

9 those customers who would get a decrease under

10 Mr. Twitchell's proposal, which is about 45 percent of all

11 customer bills that span the average use.

12 So then we used our proposal. So we have

13 different revenue requirements. For the part on the right,

14 we tried to somehow replicate his rate design. This was our

15 best attempt at it. But you know, frankly, we struggled

16 with how to replicate it.

17 COMMISSIONER JONES: Sure.

18 THE WITNESS: We weren't sure how we would do

19 a decrease to those middle sections, the first and second

20 block, at our revenue requirement. So it was just our best

21 attempt.

22 COMMISSIONER JONES: So it was your best

23 guess. And I think you have the ability to -- I think

24 you're going to be cross-examining Mr. Twitchell later, so

25 we can get into that.

0529

1 But the bottom line numbers are the Staff

2 proposal produces 8,523 megawatt hours. That's the annual

3 reduction you calculate, right?

4 THE WITNESS: Yes.

5 COMMISSIONER JONES: And then under your

6 proposal it's 28,919?

7 THE WITNESS: Yes.

8 COMMISSIONER JONES: And then per the

9 revision that you did on Mr. Twitchell's staff proposal is

10 28,344, right?

11 THE WITNESS: Yes. And these are the long

12 run.

13 COMMISSIONER JONES: And this is not short

14 run; this is the 7.43 end run number, long run?

15 THE WITNESS: 079.

16 COMMISSIONER JONES: Okay. Okay. Well,

17 thank you for clarifying that.

18 This is an important table that I think we'll

19 get into with Mr. Twitchell as well.

20 So that's all I have, Judge.

21 COMMISSIONER GOLTZ: Judge, Commissioner

22 Jones raises an issue that I wanted to follow up with.

23 Do I understand that the rationale for the

24 higher fixed charge is to facilitate fixed cost recovery,

25 but also you mentioned it also provides some transparency of

0530

1 rate components?

2 Is that the basic rationale?

3 THE WITNESS: Well, the unbundling I did

4 helps provide transparency. I unbundled rates between

5 distribution, transmission and generation.

6 COMMISSIONER GOLTZ: So I'm trying to

7 pinpoint the rationale here for what I think people would

8 see as a rather dramatic increase in the fixed charge.

9 Is it basically because your proposal is

10 driven by a combination of fixed cost recovery and a desire

11 to provide more transparency?

12 THE WITNESS: Yes, and these are facilities

13 that every customer requires and uses.

14 COMMISSIONER GOLTZ: So then fixed cost

15 recovery wouldn't, as a Company mechanism, also address that

16 a issue for the Company?

17 THE WITNESS: For the Company, but not for

18 our customer. A decoupling doesn't get at rate design.

19 COMMISSIONER GOLTZ: I understand.

20 But as far as you're concerned about

21 recovering fixed costs, decoupling would get at that, as

22 would a larger fixed charge?

23 THE WITNESS: Yes. But we're also concerned

24 about getting a rate structure that's cost based; not just

25 where we get the revenue or how we get the revenue.

0531

1 COMMISSIONER GOLTZ: I'm just focusing on

2 what the rationales are here.

3 And on the issue of transparency of rate

4 components, I guess I've always had a little trouble with

5 transparency because I look at a bill -- and understand I'm

6 a Puget customer, so maybe it's different -- but there's

7 about seven line items on there. And except for the one

8 that shows up as tax, they're pretty hard to decipher in the

9 one line or few words that you have.

10 Is that the transparency, or are you relying

11 on something in a bill stuffer or on your website to provide

12 that transparency?

13 Because I'm pretty sure on a bill you're not

14 saying "fixed charge to include meter reading and

15 installation and 50 percent of the lines or 50 percent of

16 the transformers." You aren't going to say that in a bill.

17 So how is the customer going to perceive this transparency?

18 THE WITNESS: It's an educational process.

19 We're not going to throw this out onto a bill.

20 And in fact, for the purposes of this case I

21 wanted to get the rates unbundled in the tariff, and then

22 over time start rolling it out on to the bills.

23 I think I did agree with Walmart that we

24 would do that for nonresidential customers. They have a

25 better grasp, I think, of the different types of rate

0532

1 components. And then over time we would start adding to

2 residential.

3 But I think we could include information on

4 our website that explains this, but we haven't figured out

5 how to do the bill. We would have to redesign the bill to

6 do it.

7 COMMISSIONER GOLTZ: You go to the gas pump,

8 and the gasoline industry, there's a huge infrastructure

9 component to it. And then there's a commodity. And right

10 now it's 2.50, 2.60 a gallon, whatever it happens to be. It

11 doesn't say the gasoline is 1.25 a gallon, but the pump

12 costs are 25 cents and transportation costs are another 35

13 cents. That doesn't add to transparency.

14 I guess I'm questioning whether the consumers

15 want, need, or will use or have easy access to the sort of

16 transparency of this unbundling that we're talking about.

17 THE WITNESS: We'll have some customers who

18 don't care. We'll have a large majority of customers that

19 don't care.

20 But I don't think we should be afraid of

21 transparency and giving customers more information. And

22 when I see a lot of, you know, news clips or letters to the

23 editor about DG when any utility is proposing modifications

24 to their rate structure and trying to explain why a

25 different rate structure or charge is necessary in relation

0533

1 to distributed generation, people don't understand what is

2 going into their bill and how much they're paying or not

3 paying for certain types of facilities.

4 So that's what I'm trying to do with

5 unbundling, is start to try to bring that sort of education

6 in, that not just us, but all parties can start to see in a

7 little bit more transparent way.

8 COMMISSIONER GOLTZ: Thanks.

9 CHAIRMAN DANNER: I have one question to ask.

10 With regard to decoupling, one of the things

11 it does is remove disincentive for the utility to engage in

12 energy efficiency and cost-related matters.

13 And I still don't understand how having a

14 high fixed charge gives you any signals whatsoever. It

15 seems that you have no incentive to conserve or no

16 disincentive not to conserve. It's just business as usual.

17 And yet, you know, Mr. Dalley's rebuttal

18 testimony talked about utilities in transition, we have all

19 these environmental agendas to go after. And yet I don't

20 see in this how does it help you engage in energy

21 efficiency?

22 THE WITNESS: Me as a company, or me as a

23 consumer?

24 CHAIRMAN DANNER: You as a company?

25 THE WITNESS: Well, frankly, with the Energy

0534

1 Independence Act, it's not going to alter what we do with

2 energy efficiency. We're going to go out and be targeting

3 all the energy efficiency that is cost effectively

4 available.

5 But the basic charge better reflects the

6 fixed cost of serving these customers through a fixed

7 charge. And those customers will still have 90 percent of

8 their bill subject to volumetric charges. So for them to go

9 -- to reduce their usage, they can still get a significant

10 benefit from that.

11 CHAIRMAN DANNER: So the only incentive you

12 have, really, is the fact that the law requires it.

13 So, you know, one of the things we've had

14 some discussions of with other utilities is whether you're

15 being dragged into energy efficiency or whether you're doing

16 it because it makes good business sense.

17 THE WITNESS: And I don't work in the energy

18 efficiency group, but we've been doing energy efficiency for

19 a long time. It's a part of our resource planning process.

20 It goes into our IRP. We have a new IRP

21 coming out.

22 And we have a new conservation potential

23 study that I've been involved with on the fringes. But they

24 put a lot of effort into looking at what is the potential.

25 So it's not just because of the EIA. But because of the EIA

0535

1 and penalties associated with it, yeah, they're going to be

2 going out there and getting that cost-effective efficiency

3 as a least cost resource.

4 CHAIRMAN DANNER: All right. Thank you.

5 JUDGE MOSS: Okay. Any follow-up?

6 MR. LOWNEY: I have a quick question that I

7 hope will clarify some of the discussion.

8 RE-DIRECT EXAMINATION

9 BY MR. LOWNEY:

10 Q Ms. Steward, you were earlier asked and had a

11 dialogue regarding the percentage of PacifiCorp's customers

12 that use electric heat.

13 And I'd like to direct your attention to page 45

14 of your rebuttal testimony.

15 A I knew I had it somewhere.

16 Q There's a Table 14 on that page that I believe

17 answers the question you were being asked.

18 A 56 percent.

19 MR. LOWNEY: Thank you. That's all the

20 questions I have.

21 CHAIRMAN DANNER: I can't believe she hasn't

22 remembered every line.

23 JUDGE MOSS: All right. Ms. Steward, thank

24 you for being with us this afternoon. We appreciate your

25 testimony.

0536

1 This will bring us to the conclusion of the

2 company's case, I believe.

3 MS. WALLACE Yes, your Honor.

4 JUDGE MOSS: And we will move on to Staff,

5 and Mr. Ball will be our first witness.

6

7 JASON L. BALL, witness herein, having been first

8 duly sworn on oath, was examined and

9 testified as follows:

10

11 DIRECT EXAMINATION

12 BY MR. SHEARER:

13 Q Good afternoon, Mr. Ball.

14 A Good afternoon.

15 Q Will you please state and spell your name for the

16 record?

17 A Jason Ball J-A-S-O-N, B-A-L L.

18 Q Mr. Ball, do you have any corrections to your

19 testimony?

20 A I do. Beginning on page 7, at line 2, the dollar

21 amount there should read 6,248,179.

22 Line 3 should read 1.94 percent.

23 On line 6 the dollar amount should read 7,853,572.

24 And line 7, the percentage should be .44. And the

25 same number should be updated in the table.

0537

1 And then on page 9, at line 4, it should read 7.07

2 percent.

3 In the table at line 7, the long-term debt weight

4 should be 5.19 percent, and the weighted cost 2.627 percent.

5 On line 9, the preferred the stock should be 6.75

6 percent for the weight and 0.19 for the weighted cost.

7 And then again on line 11 it should read 7.07.

8 That's the end of my corrections.

9 MR. SHEARER: Your Honor, this witness is

10 available for cross.

11 JUDGE MOSS: And the Company has indicated

12 about 20 minutes.

13 MS. WALLACE: I think it will be less.

14 JUDGE MOSS: Very well.

15

16 CROSS-EXAMINATION

17 BY MS. WALLACE:

18 Q Good afternoon, Mr. Ball.

19 A Good afternoon.

20 Q On page 6 of your testimony, JLB-1T?

21 A Yes.

22 Q Lines 11 to 12, you state that, "The matching of

23 benefit with burden is an important regulatory objective

24 that is reflected throughout Staff's case; is that correct?

25 A That is correct.

0538

1 Q And in this case on page 9, which you just

2 corrected, that shows Staff's overall proposal for rate of

3 return of 7.07 percent; is that correct?

4 A That's correct.

5 Q And this includes, as it shows on the table, an

6 equity component of 49.10 percent?

7 A That's correct.

8 Q And a cost of long-term debt of 5.19 percent?

9 A That is correct.

10 Q And as was discussed yesterday, PacifiCorp's low

11 cost of debt is a product of its actual capital structure,

12 not the hypothetical capital structure adopted by the

13 Commission, correct?

14 A That's what I was given to understand yesterday.

15 But Mr. Parcell, for Staff, would be the better

16 person to direct that question to.

17 Q Well, if that's your understanding based on

18 yesterday --

19 A That's the way I understood it yesterday, yes.

20 Q So despite stating that matching benefits and

21 burdens is a key principle in Staff's case, this proposed

22 ROR includes the benefit of the low cost of long-term debt

23 that's achieved using the actual capital structure, but

24 doesn't include the costs of that capital structure,

25 correct?

0539

1 A The capital structure recommended by Mr. Parcell

2 includes a weight of 5.19, not the -- as I'm given to

3 understand yesterday, the cost of the capital in the

4 Company's actual capital structure.

5 Again, I'm not -- I was not the rate of return

6 witness. So he would be a better person to answer that

7 question and why he recommended what he did.

8 Q Fair enough.

9 As Staff's revenue requirement witness, you would

10 agree, wouldn't you, that a utilities' return on equity is a

11 component of the utility's overall revenue requirement?

12 A It is one component, yes.

13 Q And on page 21 of your testimony, line 7, you note

14 that the Merwin Fish Collector was placed in service in

15 March 2014; is that correct?

16 A That is correct.

17 Q And in May 2014 -- this is also discussed on the

18 same page -- in May 2014, the Commission approved a petition

19 for deferred accounting for the full revenue requirement

20 associated with the fish collector from the date of the

21 petition until the costs are reflected in base rates; is

22 that correct?

23 A That is correct.

24 Q And in this case the Company is seeking to

25 amortize that deferral?

0540

1 A That is my understanding of the Company's

2 proposal, yes.

3 Q And you're the witness who discussed that

4 proposal, correct?

5 A Yes.

6 Q And Staff's position is that the Company should be

7 permitted to recover two components of the full revenue

8 requirement associated with the Merwin Fish Collector,

9 depreciation expense and the O&M expense; but according to

10 the Staff, the Company should not recover the third

11 component of revenue requirement, the return on capital for

12 the project; is that correct?

13 A I believe that's a fair characterization.

14 However I would like to qualify the answer here.

15 I believe there's two important concepts here. One is

16 Merwin Fish Collector, the rate base addition; and the other

17 is the Merwin Fish Collector, the deferral.

18 The rate base addition, as pointed out in my

19 testimony, Staff recommends as a prudent investment that

20 should be included in rates and will include return, et

21 cetera.

22 The deferral is something different. The deferral

23 is a request by the Company for extraordinary relief to

24 address what is essentially regulatory lag. Therefore,

25 there's a broad discretion here for the Commission to

0541

1 address its concerns as stated in other orders about the

2 potential impact of inter-period rate based deferrals on

3 regulatory oversight.

4 And one of those options is to approve only a

5 certain recovery of costs.

6 Another option is to deny the petition outright.

7 It's up to the Commission, in my opinion, but I

8 can issue a Staff opinion which represents what I believe is

9 a fair and reasonable result and what I believe is in the

10 public's best interest.

11 Q Thank you, Mr. Ball.

12 Staff's position reduces the amount for recovery

13 from 1.7 million to approximately 500,000; is that correct?

14 A That's the approximate numbers, yes.

15 Q And Staff also doesn't support recovery of

16 interest on any of the deferral amounts at issue in this

17 case, correct?

18 A That is correct.

19 Q And on page 28 of your testimony, you cite to an

20 Avista case to support that position; is that correct?

21 A That is one of the supports for the position, yes.

22 Q One of the supports.

23 Is there another cite to another case?

24 A Sorry. No. That is the only other case I cite to

25 for that particular issue.

0542

1 Q And in that case, the Avista case, did Avista

2 request interest on the deferral?

3 A No, they specifically did not.

4 Q And are you aware of other cases where the

5 Commission did not allow interest on deferred amounts?

6 A Not at this juncture, no.

7 Q If you could please turn to one of your cross

8 exhibits, 8-CX?

9 A Is that the --

10 Q It's the Commission letter acknowledging its IRP?

11 A I've got it.

12 Q So as we just said, this document is the

13 Commission's letter acknowledging the Company's 2013

14 Integrated Resource Plan, correct?

15 A Correct.

16 Q And on page 3, the second paragraph, it's the

17 first sentence of the second paragraph on page 3, the

18 Commission states --

19 COMMISSIONER GOLTZ: Wait. Same paragraph on

20 page?

21 MS. WALLACE: Page 3 of the exhibit. I don't

22 have page numbers on the letter itself. So it's the

23 attachment to the letter.

24 COMMISSIONER GOLTZ: Right.

25 MS. WALLACE: Second paragraph, first line.

0543

1 COMMISSIONER GOLTZ: On 8CX?

2 MS. WALLACE: 8CX. Page 3 of 9.

3 COMMISSIONER GOLTZ: Second paragraph?

4 MS. WALLACE: Second paragraph, first line.

5 Q (By Ms. Wallace) The Commission states, "Recent

6 developments created major changes in the utility industry,

7 bringing new opportunities and challenges."

8 Do you see that?

9 A I do.

10 Q Does Staff agree with the Commission that the

11 change in utility landscape creates challenges for

12 utilities?

13 A In general, I would have to say yes.

14 However, I would like to point out that I was not

15 the analyst involved in this IRP, the letter, or the review

16 of the IRP.

17 MS. WALLACE: Thank you, Mr. Ball. That's

18 all I have.

19 JUDGE MOSS: All right. How long did that

20 take?

21 MS. WALLACE: Five minutes.

22 JUDGE MOSS: Just kidding.

23 Are there any questions from the bench?

24 COMMISSIONER JONES. I have some.

25 JUDGE MOSS: You have 15 minutes.

0544

1 COMMISSIONER JONES: Judge Moss is really

2 coming into his element.

3

4 QUESTIONS FROM THE COMMISSIONERS

5 COMMISSIONER JONES: If you could turn to

6 page 16 of your testimony, Mr. Ball.

7 THE WITNESS: Okay.

8 COMMISSIONER JONES: This won't take long.

9 Up at the top, line 1, you say Washington

10 uses a, quote, historical test year?

11 THE WITNESS: That's correct.

12 COMMISSIONER JONES: Isn't it more accurate

13 to say we use a modified historical test year?

14 THE WITNESS: That may be more accurate. But

15 the basic principles are very, very similar.

16 COMMISSIONER JONES: What sort of

17 modifications do we do to a historical test here?

18 THE WITNESS: We use pro forma and restated

19 adjustments to modify and walk forward certain adjustments.

20 COMMISSIONER JONES: Have you used a lot of

21 pro forma adjustments?

22 You're the lead -- you're the overview

23 witness in this case, right?

24 You've accepted quite a few pro forma

25 adjustments, correct?

0545

1 THE WITNESS: That's correct.

2 COMMISSIONER JONES: So is it more accurate

3 to say modified historical test year?

4 THE WITNESS: It more than likely is.

5 COMMISSIONER JONES: Okay. Lines 15 through

6 17, this regards attrition. So you're arguing here that a

7 attrition adjustment study would be more holistic and a

8 better way to look at the issues associated with regulatory

9 lag, right?

10 THE WITNESS: Well, I don't specifically call

11 out regulatory lag.

12 But yes, an attrition adjustment is a

13 holistic approach, and is one tool in the bag of addressing

14 several different problems that may be facing a company.

15 And one of those may be regulatory lag.

16 COMMISSIONER JONES: Did the Company do an

17 attrition study, a full attrition study in this case?

18 THE WITNESS: No, not that I'm aware of.

19 COMMISSIONER JONES: Has the Company, in your

20 view, ever done an attrition study?

21 THE WITNESS: Not that I'm aware of.

22 COMMISSIONER JONES: Have other companies,

23 such as Avista -- I think Avista did a full attrition study

24 in its last case, correct?

25 THE WITNESS: That is correct, yes.

0546

1 COMMISSIONER JONES: And Mr. Maguire

2 (phonetic) performed a full attrition study in response to

3 that, correct?

4 THE WITNESS: That is correct.

5 COMMISSIONER JONES: And what is Staff's

6 proposal, thinking going forward about how we deal with

7 attrition?

8 Are we going to -- I seem to recall some case

9 that we may be doing workshops or some sort of a

10 collaborative?

11 THE WITNESS: That is my understanding as

12 well, is it that the Commission is interested in attrition

13 as a tool and is interested in looking at it for future

14 cases and for future use in future cases with the different

15 IOU's.

16 But it is not proposed in this particular

17 case. The reason why I brought it up, however, was because

18 the IHS inflation factors seem to me to be an attempt at a

19 partial attrition analysis.

20 COMMISSIONER JONES: I understand.

21 And then on page 22 you have the prudency

22 evaluation of the Merwin Project, right?

23 THE WITNESS: 22, you said?

24 COMMISSIONER JONES: Yes, page 22 of your

25 rebuttal?

0547

1 THE WITNESS: Yes.

2 COMMISSIONER JONES: And so you've done the

3 traditional prudence evaluation, the four-part test to

4 determine that the Merwin Project meets the standard of

5 prudency, right?

6 THE WITNESS: That is correct.

7 COMMISSIONER JONES: Are there any other

8 rate-based additions in this case that require a prudency

9 determination?

10 THE WITNESS: Not that I performed.

11 Staff witness Betty Erdahl might be able to

12 answer those questions better.

13 COMMISSIONER JONES: Those are all my

14 questions, Judge.

15 CHAIRMAN DANNER: No questions.

16 JUDGE MOSS: I should ask if there's any

17 redirect from Staff.

18 MR. SHEARER: Yes, please.

19 JUDGE MOSS: I was about to cut you off.

20 MR. SHEARER: It will also be brief.

21 REDIRECT EXAMINATION

22 BY MR. SHEARER:

23 Q Regarding the Merwin fish collector, was that

24 issue consolidated in this proceeding?

25 A Yes.

0548

1 Q Did the Commission make any final determinations

2 when -- previously?

3 A No.

4 Q No. The Commission simply approved the

5 authorization to defer.

6 The authorization to recover is still at issue in

7 this case.

8 MR. SHEARER: That's all. Thank you.

9 JUDGE MOSS: All right. Very well.

10 Mr. Ball, thank you very much for being here

11 and giving your testimony today. You may step down.

12 So Mr. Gomez is next. Does the Company think

13 they will have, say, 30 to 45 minutes for Mr. Gomez?

14 MS. MCDOWELL I think less than half an hour.

15

16 DAVID C. GOMEZ, witness herein, having been first

17 duly sworn on oath, was examined and

18 testified as follows:

19

20 DIRECT EXAMINATION

21 BY MR. OSHIE:

22 Q Mr. Gomez, will you please state your name and

23 spell your last name for the record?

24 A David Gomez; D-A-V-I-D, G-O-M-E-Z.

25 Q Thank you.

0549

1 Do you have any changes to your testimony, Mr.

2 Gomez?

3 A No, I do not.

4 MR. OSHIE: Tender the witness for

5 cross-examination.

6 JUDGE MOSS: All right. Ms. McDowell, you

7 may proceed.

8 CROSS-EXAMINATION

9 BY MS. MCDOWELL:

10 Q Good afternoon, Mr. Gomez.

11 A Good afternoon.

12 Q So I'm going to begin by just getting a frame of

13 reference from the last General Rate Case Order 05. And I'm

14 not sure you have that with you.

15 A I do not have it.

16 Q I'm just going to read a brief passage to you.

17 A I do have some of the paragraphs. So maybe if you

18 gave me a paragraph, I might have it.

19 Q I was going to direct your attention to paragraphs

20 -- actually paragraph 113.

21 A I do not have that.

22 MR. OSHIE: Your Honor, we have a copy of the

23 order. Can I bring it up to the witness?

24 JUDGE MOSS: Sure. That would be fine.

25 MR. OSHIE Thank you.

0550

1 THE WITNESS: If you could give me that

2 again, please?

3 Q (By Ms. McDowell) Paragraph 113 on page 46 of

4 Order 05?

5 A Page 46?

6 Q That's correct.

7 A 113. I have it.

8 Q So in denying PacifiCorp's request in its last

9 general rate case to allow Oregon and California QF's to be

10 reflected in rates, the Commission cited to your analysis

11 showing that there was a significant financial impact on

12 Washington state ratepayers due to different QF policies in

13 Oregon and Washington.

14 Do you see that summary, summarizing the first

15 line of paragraph 113? Do you see that?

16 A Yes, I do.

17 Q Now, do you also see the following statement,

18 which states, and I'll quote this, "The Oregon and

19 California QF contracts result in net power costs that are

20 significantly higher than would be the case if they were

21 priced at Washington avoided cost rates"?

22 Do you see that?

23 A Yes, I do see that.

24 Q Now, in this case, the Company responded by

25 proposing the alternative approach of repricing its

0551

1 California and Oregon QF's at Washington avoided cost rates,

2 correct?

3 A Yes, that's correct.

4 Q And the Company's approach to repricing its QF's

5 is essentially the same based on the same sort of analysis

6 that you presented to the Commission underlying its finding

7 in paragraph 113, correct?

8 A No. It is not.

9 Q So isn't it true that the repricing information

10 that you relied on that the Commission used in paragraph 113

11 was based on a repricing analysis that you requested the

12 Company to perform?

13 A Yes. But I think that the previous question you

14 asked was whether or not the repricing proposal that the

15 Company offered in this case is somehow identical to the

16 analysis I made in the last case. And the answer to that

17 was no.

18 Q It's similar, correct?

19 A No.

20 Q So how is it different?

21 A It's different because the repricing approach is

22 really walking back these contracts to a time and place when

23 these specific avoided cost schedules for the Company's --

24 at least their proposals, repricing proposals, is to take

25 these contracts and walk them back to the avoided cost

0552

1 schedules that were in effect at the time in Washington at

2 that date and time.

3 And then given the fact that those avoided cost

4 schedules only go so far, the Company then, in its work

5 papers, extrapolated using inflation factor, and just to

6 oversimplify that, just explain it that way, extended those

7 contracts out to their full term.

8 So under my analysis in this case, if you take

9 those and apply the Company's repricing proposal to

10 contracts that were, let's say, executed in the 2008-2009

11 time frame, and you take the Company's projected avoided

12 costs forward into the rate year now, you're essentially

13 asking ratepayers to pay double on an avoided cost basis

14 than -- the avoided cost that's currently in the Company's

15 schedule.

16 Q And that's really because the Company's contracts

17 go back in time, correct?

18 A Yes, but again, that is flawed. I think that

19 analysis, that approach is flawed in its application because

20 it's inconsistent with the Commission's resource and

21 planning and acquisition policies. But it's also contrary

22 to Commission rule and the Company's own published tariffs.

23 Q Well, let's talk about that. Repricing at

24 Washington prices does take care of your concern that using

25 Oregon or California prices means that you're somehow or

0553

1 another paying for Oregon or California QF policies,

2 correct?

3 A No.

4 Q Because the Washington prices are what Washington

5 policies provide, correct?

6 A No, because those contracts are refreshed every

7 five years. So to say just that if we go back in time and

8 walk these contracts back and then just look at what those

9 avoided costs were at the time and then say that's good

10 enough is really not the entire story.

11 That would be -- you need to look at the rest of

12 the aspects of that policy, which is to include the

13 longer-term both California and Oregon contracts. That in

14 itself leads to significant cost shift toward Washington

15 ratepayers, and in Staff's opinion is unacceptable even with

16 the repricing proposal.

17 Q Now, can you turn to Schedule 37, please?

18 A Is that an exhibit?

19 Q Yes, DCG-6CX.

20 A 6CX. Okay. I'm there.

21 Q And this tariff has a series of prices, both

22 energy and capacity, correct?

23 A That's correct.

24 Q And in terms of setting these prices -- do you

25 have Mr. Duvall's testimony with you?

0554

1 A I think I do but it's going to take me a little

2 longer to get there. Which one, the rebuttal?

3 Q This is the rebuttal testimony of Mr. Duvall.

4 A Hang on a second. Give me a page.

5 Q Can you turn to page 16, please, line 19?

6 A I'm there.

7 Q So there Mr. Duvall is quoting a Commission case

8 that talks about the Commission's orders insuring customer

9 indifference in the pricing of QF's. And he quotes the

10 Commission's order as stating "by its own terms, PURPA was

11 meant to protect the ratepayers. Avoided cost prices should

12 be established to be no greater than that which the

13 ratepayers would be expected to pay without PURPA."

14 Do you see that?

15 A Yes, I do.

16 Q So you would agree that Washington sets avoided

17 cost prices in a manner that protects ratepayers?

18 A Yes.

19 Q And you would agree that Washington avoided cost

20 prices under Schedule 37 are designed to insure customer

21 indifference between QF power and non-QF power?

22 A Yes, that is my understanding.

23 Q And would you agree that Washington QF's provide

24 benefits to customers?

25 A Would you define benefit?

0555

1 Q Well, are most QF's renewable energy?

2 A Again, I can't answer that question with any

3 precision because again I'm not -- when you say "renewable,"

4 what does that mean?

5 Q Well, let me ask you this: Is it your

6 understanding that most renewable -- most QF contracts,

7 certainly in PacifiCorp's portfolio, are renewable energy,

8 carbon-free renewable energy?

9 A I think that what the Company has said, if you

10 look at it, the Oregon contracts, the way I've seen them in

11 terms of the contracts I've looked at, a lot of them appear

12 to be renewable. But that would depend on what that

13 definition is.

14 Q And you would agree that QF power provides

15 resource diversification to Washington customers?

16 A Are you speaking about which --

17 Q Just QF's in general. Washington QF's would

18 provide resource diversification to Washington customers?

19 A Again, by the nature of those types of resources,

20 it's not a question of whether they're prudent or whether

21 they provide a benefit in terms of their acceptability into

22 net power costs, or at least in terms of their acceptability

23 as a contract. I don't think that that -- you know, whether

24 they provide benefit or not is not the issue.

25 Q But that's my question. You don't contest that

0556

1 they do provide benefit, correct?

2 A Well, when you say "benefit," you mean just power?

3 Q My specific question was, do you agree that they

4 provide benefits in terms of resource diversification?

5 A Yes.

6 Q Now, if PacifiCorp's out-of-state QF power is

7 priced using Washington avoided cost prices, customers can

8 get the benefits of that QF power at the same prices they

9 pay for in-state QF power, correct?

10 MR. OSHIE: Objection, your Honor. Counsel

11 can rephrase the question. What time period are we talking

12 about? That's ambiguous.

13 Are you addressing the proposal that the

14 Company's made? Or in other words, are you addressing

15 Mr. Gomez's response?

16 What he looked at is the contemporaneous

17 avoided cost price, not the avoided cost price going back

18 through history.

19 JUDGE MOSS: Perhaps you could clarify the

20 question.

21 Q (By Ms. McDowell) I'm happy to do that.

22 On a going forward basis, if PacifiCorp's

23 out-of-state QF power is priced using Washington avoided

24 cost prices, customers will get the benefit of that added QF

25 power at the same price they pay for in-state QF power,

0557

1 correct?

2 A If the Company's referring to its repricing

3 proposal, I would say that those don't reflect the avoided

4 costs currently in Washington.

5 But if the Company is saying is if these

6 contracts, let's say the power associated with them is

7 priced at Washington avoided cost currently on the Company's

8 schedule in its tariff, I would say yes.

9 Q And under that proposal, the geographic location

10 of PacifiCorp's QF contracts would become irrelevant for

11 purposes of Washington cost recovery, correct, because the

12 prices would be the same whether they're in state or out of

13 state, correct?

14 A Yes.

15 Q And that's in contrast to the status quo, correct,

16 where the QF's geographic location determines whether it's

17 recoverable under Washington rates, correct?

18 A Well, if you say that the only basis for a situs

19 allocation is a physical location.

20 I think the Commission in its last order said

21 there was no basis about the physical location where the

22 resources are located. The real issue here is the policies

23 that create a significant cost differential. And that is

24 the basis from which situs allocation is derived, not the

25 flow of power or whether or not these contracts are in

0558

1 Oregon or California.

2 The point is that the individual states, at least

3 as originally contemplated in the revised protocol, was that

4 all of these resources, state resources, for the reasons

5 stated in terms of the differing policies and those impacts

6 that can happen, the best approach from a cost allocation

7 standpoint was to situs allocate them.

8 I believe Mr. Duvall said that he wasn't sure, or

9 he made a statement that they weren't. But the revised

10 protocol, the prior revised protocol before 2004 had all

11 these state resources situs allocated. And so that's been a

12 departure.

13 And again, that's perhaps wisdom behind such an

14 allocation on a state by state basis. It's not the physical

15 location as much that each individual commission determines

16 what the avoided costs are. Therefore, as a result, those

17 costs associated with those decisions should remain in the

18 states that they're made.

19 Q You would agree, wouldn't you, that the premise of

20 a situs allocation is that a resource is assigned to the

21 particular state in which it is geographically located?

22 A Yes.

23 Q Now can you turn to page 13 of your testimony,

24 please.

25 A I'm there.

0559

1 Q There at the bottom of the page you discuss the

2 difference between the Commission's approach to Pacific

3 Power's out-of-state QF contracts and Avista's out-of-state

4 QF contracts?

5 Do you see that particularly at the bottom of the

6 page?

7 A Can you give me line numbers?

8 Q The page beginning line 16 and going to the

9 following page, you do a numerical comparison between the

10 QF's held by Avista and those held by Pacific Power.

11 Do you see that?

12 A Yes, I do.

13 Q You prepared a work paper, I believe, that backed

14 up that analysis. And we've provided that work paper in --

15 as DCG-9CX.

16 A I have that.

17 Q And I'm going to represent to you that in order to

18 make -- it was basically a spreadsheet. And in order to

19 make the spreadsheet print out in a coherent way, because I

20 couldn't get all the cell descriptions to print out, I've

21 added a few labels. And I just wanted to go through them

22 with you to make sure you confirm that I accurately labeled

23 your information here.

24 A Sure.

25 Q So I added the label "QF location," and then on

0560

1 down that column, the Washington and Idaho locations of the

2 QF's. And that was taken from the cells connected to those

3 numbers.

4 Does that look accurate in terms of replicating

5 your spreadsheet?

6 A It's going to be tough for me. I've got it

7 labeled for my benefit. And again, my apologies. If I

8 would have known it was going to be used as an exhibit, I

9 would have cleaned it up a little better. But maybe we can

10 work our way through this and I can kind of follow you.

11 Q I just want to flag for you where we put in

12 labels, and if there are any inaccuracies, I'd like you to

13 be clear about --

14 A Okay. I see what you're saying.

15 Q So we put in the QF location information from the

16 cells that did not print out.

17 And then the other labels that we added that were

18 from the spreadsheet that didn't print out were the Idaho

19 and Washington headings there at the top of the columns on

20 the right-hand side of the page.

21 A Okay. Well, let's maybe go with some questions

22 and we'll muddle our way through this one. Sorry about

23 that.

24 Q Please let us know if there's anything inaccurate

25 in this. But I will represent to you that we basically

0561

1 printed out your spreadsheet and then added the labels that

2 were in the cells.

3 A Yes.

4 Q So this analysis shows that Avista is currently

5 recovering five different Idaho QF's in Washington rates?

6 A That's correct. And seven Washington.

7 Q And the analysis also over here, on the average

8 price information, shows that Idaho's -- excuse me; Avista's

9 Idaho QF costs are higher on average than its Washington QF

10 costs?

11 A Are you saying Idaho and then Washington?

12 Is that the numbers you're talking about, the ID

13 and WA?

14 Q Correct.

15 A Yes, I see that. That's not the avoided cost as

16 much as that's the average cost of the contract. So

17 depending on when the contracts were let, which avoided

18 costs they reflect, I don't know.

19 The point of it is just to kind of look at it from

20 a cost allocation standpoint and compare it in terms of cost

21 shift.

22 So you have to understand that when the Company

23 models power, it -- the contract for the WCA as established

24 by the Commission, these contracts, they essentially don't

25 exist, the contracts that you're speaking of, Oregon and

0562

1 California QF's.

2 Q What I'm speaking about are the Avista contracts

3 on this page?

4 A Sorry.

5 Q So if we can get back to that, just so we all

6 understand, basically you added these Avista QF's that you

7 listed here that you discussed, and you got an average price

8 associated with those. Is that what that column is?

9 A Yes.

10 Q And the average price for the ID QF's is higher

11 than the Washington QF's.

12 Do you see that?

13 A Yes.

14 Q And then you have in here, the next line is 2013

15 spot market.

16 Do you see that?

17 A Yes.

18 Q And in both circumstances, the Idaho and the

19 Washington circumstances, those QF prices are higher than

20 the market price?

21 A Yes. So are you are referring to the 32.10 being

22 more than the 55.75?

23 Q Right. And then the difference is the bottom line

24 there. The Idaho QF's are 23.65 higher than market and the

25 Washington QF's are 16.36 higher than market.

0563

1 Do you see that?

2 A Yes.

3 Q And I take it some of that difference, the

4 difference between the market prices and the average prices,

5 is associated with the vintage of the QF contract, correct?

6 A Yes. The other thing I should point out that I

7 want to make sure you're aware of is that the 2013 spot

8 market price that's used is reflective of when the

9 information -- when we got the information, which was in a

10 previous case with Avista. So I just wanted to make sure

11 you knew the point of reference for those market prices.

12 Q Thank you. And just for the record, this is

13 marked confidential. We had a discussion with your counsel

14 and agreed it was not a confidential exhibit. So it's

15 marked confidential because that's how it was in your

16 spreadsheet. But it's been designated as a nonconfidential

17 document.

18 So Mr. Gomez, can you look at Cross Exhibit

19 DCG-10X which is your testimony in the previous case, the

20 2013 rate case?

21 A Okay. Page?

22 Q Can you turn to page 11, please?

23 A Okay.

24 Q And it's actually -- I'm wrong about that. It's

25 page 11 of the exhibit, which is page 25 of the testimony.

0564

1 A Okay. I'm there.

2 Q So on lines 16 to 24 I just wanted to direct your

3 attention to that testimony and ask you the question whether

4 in the last case Staff objected --

5 A Can I hold you a second. I'm sorry. I want to

6 make sure I'm on the right page. You said page 24, page 10

7 of the exhibit?

8 Q Which is page 25 of the testimony.

9 A I've got it.

10 Q So lines 16 through 24.

11 A Okay. Sorry about that.

12 Q Should the Commission nevertheless consider a PCAM

13 for the Company that includes sharing bands and deadbands?

14 A I see that.

15 Q And your testimony in the last case was no, it was

16 your understanding that the entire issue of interstate cost

17 allocations will be revisited in the near future across the

18 company's six jurisdictions.

19 And on that basis, your testimony on the last case

20 was that it was preliminary to adopt a PCAM for PacifiCorp

21 until the multistate process was completed.

22 Was that a fair summary?

23 A Yes.

24 Q So in this case you've changed that position,

25 which the Company appreciates. And I just wanted to ask you

0565

1 why?

2 A Well, we've been -- we read the last order and

3 what the Commission had to say about that. And the

4 Commission said, like Staff, we're open to consider -- again

5 let me give you the reference I'm reading from. Docket

6 UE-130043, Order 05, paragraph 173 of the Commission's order

7 in the last case.

8 And in there it says, on the second sentence it

9 says, "Like Staff, we are open to consider a properly

10 designed PCAM proposal that incorporates the appropriate

11 balance between the Company and ratepayers. Yet the Company

12 proposal in this case really is nothing more than a request

13 for a power cost tracker and trueup mechanism." And I'll

14 stop there.

15 But essentially what we interpreted that is that

16 the Commission's signal in the last case, at the end of the

17 last case after I had completed this testimony, that it was

18 open for a power cost adjustment mechanism and the Company

19 did not offer one. Staff felt it was appropriate in this

20 case to do so and to offer one.

21 Q So I appreciate that answer.

22 And can you now turn to -- it's your data request

23 7CX-- DCG -- it's your data request which has been marked as

24 DCG-7CX.

25 A I'm there.

0566

1 Q And you agree in that data response that the PCAM

2 proposal is virtually identical to Staff's PCAM proposal in

3 this case.

4 Do you see that?

5 A I'm sorry. Which paragraph? Say that again?

6 Q So I'm in the response to the Data Request 62.

7 A Right.

8 Q And it's the first line of your response.

9 Do you see that?

10 A Yes, I do.

11 Q And again, just so the record is clear, your

12 response stated that Avista's ERM is virtually identical to

13 Staff's PCAM proposal in this case?

14 A Yes.

15 Q So I wanted to ask you, in the Company's 2005

16 case, the Commission rejected the Company's proposed PCAM

17 modeled on the Avista ERM because it failed to take into

18 account Pacific Power's specific circumstances.

19 Are you familiar with that order?

20 A I'll accept that. I mean, yes. I'm familiar with

21 that.

22 Based on the conversations previously, I believe

23 your witness Bryce Dalley was mentioned or talked about

24 that.

25 Q So can you explain how your proposal specifically

0567

1 addresses Pacific Power's special circumstances?

2 A Well, first of all, before you go there, I think

3 it's important to point out the reason why we never got

4 anywhere with the previous proposals.

5 In reading the past cases and past orders

6 associated with this, the Company had had the pseudo actual

7 issue. So there was really no way to take base NPC and

8 compare it to actuals. So that was a limiting factor that

9 was resolved in the Company's last case when the Company

10 said, "Okay, we've got a solution for that," and then

11 proposed its last PCAM.

12 The only part in the last case where it fell short

13 was it didn't include properly designed deadbands and

14 sharing bands.

15 Now I want to get back to your question based on

16 that, what you're saying --

17 Q So let me just say that you would agree we're

18 making progress, then?

19 A We're making progress if you can say that an RRTM

20 is a significant 180-degree departure from where we were in

21 the last case. Which is no, I guess. I'm sorry.

22 Q I thought we were tracking there for a minute.

23 Let's get back on track. So sticking with the

24 PCAM, and back to my question, the Commission's previous

25 order rejecting a PCAM based on the Avista model required

0568

1 the design to take into account the Company's specific

2 circumstances.

3 And my question to you is, how have you addressed

4 that requirement from the Commission?

5 A Well, I'm asking you to define what the specific

6 circumstances are, I guess. It may be helpful for me to be

7 able to answer that question without me going off and not

8 answering the question.

9 Q Well, that was the Commission's requirement. And

10 you know, I guess this isn't a dialogue. So let me get back

11 into questioning mode here.

12 Did you address that aspect of the Commission's

13 previous order?

14 A Well, again, I started off right where the Company

15 left off with the exception of sharing and deadbands, and

16 then went to the -- Avista's ERM and utilized that as the

17 design to replicate for PacifiCorp.

18 And in the case of the design of the deadbands,

19 for instance, if you look at the percentages that we used,

20 if you work them down to Washington allocated basis from a

21 net power cost standpoint and you look at it, so the

22 deadbands for Avista are 4 percent based on 93 million

23 dollars Washington allocated power costs.

24 And then it's the same amount for the design the

25 Staff proposes in this case in the deadbands.

0569

1 Then you have the bands associated --

2 Q Let me stop you on that for a moment. Is your

3 testimony that the deadband that you proposed for PacifiCorp

4 is mathematically the same as the one placed for Avista?

5 A Yes.

6 Q So are there any other modifications or tweaks to

7 the Avista PCAM that you made to address the differences

8 between Avista and PacifiCorp?

9 A None that I'm aware of.

10 Q So the exhibit that we just referred to, this data

11 request DCG-7X, was the current version of the data request

12 we had at the time that the cross exhibits were due. And I

13 believe, just so the record is clear, you did supplement

14 that request?

15 A Yes, I did. In my haste to answer the first part

16 of the question, I failed to answer the second part of the

17 question. My apologies. The supplemental responses I

18 believe were provided to you, and hopefully are in the

19 record.

20 Q So we will, just to make this easy without putting

21 a lot more paper in the record, the second part of the

22 question was "Please provide the annual customer credits or

23 surcharges resulting from the application of the ERM for

24 each year in which it has been in place."

25 Do you see that in the cross exhibit, DCG-7CX?

0570

1 That was the second part of the question that

2 wasn't originally answered?

3 A Yes. And I'm referring back to what we provided,

4 the supplemental. Okay. I'm there.

5 Q And your supplemental response was that deferral

6 balances have never reached a level that has that triggered

7 either a credit or surcharge to customers.

8 That was your first supplemental response?

9 A That's correct. And I think that's indicative of

10 the design.

11 Q So can you turn to page DCG-5C?

12 So that is your exhibit to your testimony in this

13 case.

14 A Just give me a second to get there. Okay. I'm

15 there.

16 Q And this is a confidential exhibit. And as I

17 understand it, you know, the overall discussion of the

18 impacts of this table are not confidential; it's just the

19 numbers themselves, very specific numbers that may be

20 confidential.

21 So I'll try to ask you questions in a way that

22 keeps us at the high level nonconfidential place.

23 And if you feel the need to start talking about

24 specific numbers on the chart, let me know and we can go

25 into a more confidential mode.

0571

1 So this exhibit was your backcast, just to use for

2 lack of a better word, looking back to see how this

3 mechanism would have worked had it been in place from 2007

4 to the present; is that a fair summary?

5 A Yes.

6 Q And under your proposal, the math we did looked

7 like the Company would recover roughly 28 percent of its

8 under-recoveries from 2007 to 2013.

9 Does that sound about right?

10 A I'll accept your numbers. But I didn't do that

11 calculation.

12 Q And assuming your historical analysis is

13 representative of the future, your proposal would allow the

14 Company to recovery only 28 percent of its variance in

15 renewable generation in the future; is that correct?

16 A Well, I think it said again, you know, we're back

17 to, you know, what the expectation is of what this mechanism

18 is supposed to do.

19 It's not intended to be a dollar-for-dollar

20 recovery mechanism as proposed in the RRTM or in the hydro

21 referral or whatever manifestation the Company made in the

22 past to recover a dollar-for-dollar amount of its variation

23 in power costs.

24 So saying that is, you know, I think that the

25 Company needs to tailor its expectations of what a realistic

0572

1 power cost adjustment mechanism is supposed to do.

2 Q So can you go back to your previous testimony in

3 the last case?

4 And that is again, for the record, DCG-10CX.

5 A Okay. Which page?

6 Q Can you turn to page 9, please?

7 A Okay. I'm there. I'm sorry. Is it page 9 of the

8 exhibit or --

9 Q I'm doing this again. It's page 9 of the exhibit,

10 which is --

11 A I gotcha. 23, right?

12 Q Yes. And there on line 16 through 18, you agreed

13 that a -- the, quote, expanded role today of renewable

14 resources within the Company's generation portfolio is an

15 additional element supporting a properly designed PCAM for

16 the Company."

17 Do you see that testimony?

18 A Yes. I agree, yes.

19 Q And isn't that what the Company is attempting to

20 address in its RRTM?

21 A Not within the context of a properly designed

22 power cost adjustment mechanism.

23 Q So I wanted to ask you a follow-up question on the

24 QF's.

25 But before I do that, let me ask you a final

0573

1 question on the PCAM testimony. Your proposal does permit a

2 carrying charge on the unrecovered net power costs that it

3 accrues in the deferred balancing account, correct?

4 A Right, both on the credit and the surcharge, both

5 for the customers and Company.

6 Q And it's symmetrical, the amount you'd apply?

7 The carrying charge is the same?

8 A Okay. Yes.

9 Q And that's consistent with the way Avista's

10 mechanism works and Puget's as well?

11 A Identical, yes.

12 Q So regarding -- I just want to get the record

13 clear because it seems like we've been talking about this

14 situs assignment of QF's.

15 And regarding your statement that Mr. Duvall

16 incorrectly stated that QF's were not situs assigned,

17 Mr. Duvall was asked whether QF's were situs assigned for

18 the merger, correct?

19 And that merger was the Utah Power/Pacific Power

20 merger; is that your understanding?

21 A I must have heard the question wrong. I heard it

22 to be after the merger.

23 Q And you were referring to maybe the acquisition by

24 MEHC or a later period of time?

25 MR. OSHIE: Objection. He's already answered

0574

1 the question, your Honor.

2 Interjecting another possible answer I don't

3 think is going to get the record anywhere in this case.

4 JUDGE MOSS: Just rephrase the question,

5 please.

6 Q (By Ms. McDowell) I'm just trying to be helpful

7 here. What is your understanding with respect to when QF's

8 were previously situs assigned?

9 A Previous to 2004. And so again, going back as far

10 as the merger, as far as I understand.

11 So going forward from 2004, at that point in 2004,

12 there was a decision made, or a change in the protocol,

13 which took and remained -- kept situs allocation for QF

14 contracts that were 2004 and older.

15 In fact, there was some dispute of when contracts

16 were executed to qualify for inclusion in -- I'm trying to

17 think of the word -- system allocation beyond 2004.

18 And so then there was an embedded cost

19 differential that was also applied and a number of very

20 complex adjustments that are really kind of hard to

21 understand, at least from my perspective. I didn't spend a

22 lot of time analyzing them because they're not pertinent in

23 this case.

24 But fundamentally the application -- or the

25 concept behind situs allocation for state resources applies

0575

1 for a number of other instances; for example, conservation,

2 renewable portfolio standards, a number of those. Those

3 apply because there are policies that drive those.

4 And from a cost causation standpoint, that's where

5 those costs needs to reside. And that was the principle and

6 logic behind situs allocation.

7 Q So is it your understanding that the QF's were

8 system assigned until the revised protocol was adopted?

9 A No.

10 MS. MCDOWELL: That's all I have.

11 JUDGE MOSS. All right. Do we have extensive

12 questions from the bench?

13 COMMISSIONER GOLTZ: I don't have any

14 questions, but I have a suggestion. It seems to me, as I

15 raise the issue of how historically this was done and seems

16 to be subject to some cross-examination questions, it might

17 be easier to pull that out in a bench request unless every

18 party is going to give us different answers. But it should

19 be something that's ascertainable and not in dispute. It's

20 just some memories may have faded and there may be some

21 different issues about timing. But it seems to me that a

22 bench request would be relatively simple. And if there's a

23 dispute, then so be it.

24 MS. MCDOWELL: I would agree. I think we

25 might have had some confusion about which merger and time

0576

1 frame we're talking about. So it's verifiable. And we can

2 produce that information, and then we won't be talking past

3 each other.

4 JUDGE MOSS: So we'll treat it as a bench

5 request.

6 Let's take our break before we have questions

7 from the bench, and try to be back by ten after, please.

8 (Bench Request No. 5 noted.)

9 (Recess.)

10 JUDGE MOSS. Let's be back on the record,

11 please.

12 Commissioner Jones, I think you may have some

13 questions for Mr. Gomez.

14

15 QUESTIONS FROM THE COMMISSIONERS

16 COMMISSIONER JONES: Good afternoon, Mr.

17 Gomez?

18 THE WITNESS: Good afternoon, Commissioner.

19 COMMISSIONER JONES: Would you turn to

20 Exhibit DCG-5C, please.

21 THE WITNESS: I'm there, Commissioner.

22 COMMISSIONER JONES: So can you just walk me

23 through how this is going to work?

24 And did you hear the exchange I had this

25 morning with Mr. Duvall over perhaps the pseudo actuals and

0577

1 the difficulty of deriving actual power costs?

2 THE WITNESS: Yes.

3 COMMISSIONER JONES: So maybe you could help

4 me a little bit about how you're going to do that in this,

5 because this is essentially the way the PCAM, as you propose

6 it, is going to work right?

7 THE WITNESS: Yes.

8 COMMISSIONER JONES: So why don't you start

9 at the top, NPC base?

10 THE WITNESS: Well, the NPC base is the

11 amount that's established as a result of an annualized

12 adjustment, again with the mechanics being worked out on a

13 regular basis. The Company and the Commission will work to

14 determine what the power cost baseline is going forward and

15 will apply that as being setting the baseline, either

16 through a general rate case or through some other

17 proceeding.

18 Once that's established, a period of time

19 will go by where at the end of the year the Company presents

20 a report or presents a status of a report in this kind of

21 format that shows what their actuals were, based on Mr.

22 Duvall's testimony in the last case, where he explains the

23 process by which which accounts would be used and what have

24 you.

25 So the actuals themselves are representative

0578

1 of a per books using WCA methodology.

2 COMMISSIONER JONES: So that first line would

3 be to take 2014 NPC, net power cost, it would be the 592.7

4 million dollars that Mr. Duvall referenced this morning,

5 right?

6 THE WITNESS: Yes, if you --

7 COMMISSIONER JONES: -- number?

8 THE WITNESS: -- yes.

9 COMMISSIONER JONES: Okay. And then for the

10 second one, how are you going to get to the actuals?

11 Because you heard Mr. Duvall this morning

12 saying they don't dispatch -- they dispatch as a system.

13 They don't dispatch WCA/ECA. And therefore the loads, at

14 least according to his testimony, the WCA loads and

15 resources don't match the system loads.

16 So you're going to have to do some

17 reconciliation to get to NPC actuals, aren't you?

18 COMMISSIONER JONES: Well, my understanding

19 -- and again, Mr. Duvall's understanding of how he

20 calculates the entire costs for WCA are probably better than

21 mine. But my understanding is that the WCA methodology, at

22 least the resources that are used to -- have been determined

23 to be included in the calculation of net power costs are

24 used when the GRID was modeled originally. And the GRID

25 models that for the base position and uses the load

0579

1 associated with the forecast of what the actual load will be

2 for Washington -- or excuse me; for WCA.

3 And then what it does then, is when they

4 calculate the NPC actual, my understanding is that they have

5 a methodology by which they had represented in the last

6 case, and that Staff examined and accepted, they come up

7 with an NPC per books that is comparative to the NPC base

8 number.

9 COMMISSIONER JONES: Okay. So my question

10 is, is that going to take a lot of work on your part to

11 verify the NPC actual, given that there's -- given that Mr.

12 Duvall has testified before that's it's a pseudo actual, and

13 there are assumptions and various variables that could go

14 into that line?

15 THE WITNESS: I think that the way I

16 understand it is that we have now resolved the pseudo actual

17 issue. We're not in the pseudo actuals anymore.

18 So the Company will actually present the net

19 power costs per books. And that's our understanding based

20 on what the Company told us in the last case. So they're

21 not using modeling to determine what their pseudo actual is

22 anymore.

23 So that was a big hurdle to overcome to make

24 the actual PCAM actually workable from a Staff perspective.

25 So it's not a big hurdle for Staff to look at

0580

1 and verify these numbers based on our experience with them

2 and having worked with them in the last.

3 COMMISSIONER JONES: And then the only other

4 item on this page I'm going to ask you about is the retail

5 revenue adjustment.

6 You testified earlier that the structure of

7 that is very similar to the ERM of Avista where we apply a

8 retail revenue adjustment. Is it the same sort of

9 adjustment where you're trying to match test year loads with

10 regular loads?

11 THE WITNESS: Yes, it's identical to the

12 retail revenue adjustment that's used in here.

13 COMMISSIONER JONES: Now let me ask you about

14 the deadbands. I didn't understand you earlier in your

15 response to Ms. McDowell.

16 The way you propose to set the deadband is 5

17 percent of the actual WCA net power cost, right?

18 THE WITNESS: Right.

19 COMMISSIONER JONES: So that would be roughly

20 5 percent of 592 million. My rough math suggests that that

21 would be about 30 million dollars, 29 to 30.

22 Is that accurate?

23 THE WITNESS: Give me a second, Commissioner.

24 Let me make sure that I can triangulate on these numbers.

25 25 million.

0581

1 COMMISSIONER JONES: How much?

2 THE WITNESS: 25 million.

3 COMMISSIONER JONES: 25. And what is the

4 number for Avista in here?

5 What is the dead band?

6 THE WITNESS: The deadband, when calculated,

7 is four million, based on 93 million dollars of Washington

8 allocated net power costs.

9 COMMISSIONER JONES: So four million?

10 THE WITNESS: Which is a little over 4

11 percent.

12 So in the case -- so is there anything magic

13 about the number of five? I mean, if the Commission were to

14 say, "We like this but we think another deadband number

15 would be appropriate," would 4 percent be appropriate?

16 THE WITNESS: Yes. But I think the way I

17 understand the way the numbers work themselves down because

18 of the allocations on our Washington allocated basis, the

19 deadband that's presented there of 25 million at 5 percent

20 of what the WCA and NPC costs represents, when you work that

21 down to Washington allocated, when I did the math it worked

22 out identical to, in this case, Avista, which is a little

23 bit over 4 percent.

24 COMMISSIONER JONES: And you stated earlier

25 that you think the ERM is operated well because it has never

0582

1 triggered that 10 percent of base retail revenues; it's

2 never gone beyond the trigger. So that in your view is a

3 proper deadband.

4 I think other people could argue that perhaps

5 you need to squeeze down the deadbands a little bit more so

6 it triggers at least on a more frequent basis.

7 THE WITNESS: Well, I think that as we go

8 along and learn and work with the Company and develop some

9 history behind it, perhaps those are things we can look at.

10 We have to start somewhere, obviously. So we

11 can't let the perfect be the enemy of the good at this

12 point.

13 COMMISSIONER JONES: I use that in my

14 speeches too.

15 THE WITNESS: It's a good one to use.

16 COMMISSIONER JONES: Okay. Next question,

17 asymmetry. So the 75 percent going in the customer

18 direction, it's shared in the surcharge direction 50/50

19 between customers and Company.

20 And then when it goes back to customers,

21 you're recommending that it's 75 percent going back in the

22 rebate direction, right?

23 THE WITNESS: That's correct.

24 COMMISSIONER JONES: And what is your

25 rationale for that?

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1 Is it primarily we do it in the ERM for

2 Avista?

3 THE WITNESS: Well, the principle as far as

4 it applies to Pacific, the Commission has affirmed that the

5 same condition would apply to any future power cost

6 adjustment mechanism that Staff or anybody else -- well, if

7 the Commission were to accept a power cost adjustment

8 mechanism for Pacific Power, it would do so to reflect the

9 appropriate bands. And so on the credit side it would

10 reflect the asymmetry, which I think you're familiar with

11 the principle wide area --

12 COMMISSIONER JONES: Yes, I am.

13 THE WITNESS: Okay.

14 COMMISSIONER JONES: The last question on the

15 PCAM is the carrying charge. We have a lot of carrying

16 charges on deferral accounts, don't we?

17 THE WITNESS: Yes.

18 COMMISSIONER JONES: So my question, I mean

19 we can use ROR, we can use net after tax return, overall

20 return, we could use long-term debt, short-term debt,

21 embedded debt.

22 So why are you recommending here that we --

23 what are you saying here?

24 Actual cost of debt, In this case would that

25 be the 5.19 percent that is in the cap structure?

0584

1 THE WITNESS: Yes. It's --

2 COMMISSIONER JONES: Is that what you're

3 recommending?

4 THE WITNESS: -- Whatever is represented in

5 the Staff case with regards to the cost of capital.

6 COMMISSIONER JONES: That's Mr. Parcell's

7 testimony?

8 THE WITNESS: Yes.

9 COMMISSIONER JONES: So that would be 5.19

10 percent?

11 THE WITNESS: Correct.

12 COMMISSIONER JONES: Why not after tax ROR,

13 because we use that on some deferred accounting. Why would

14 that not be appropriate?

15 THE WITNESS: I think I really cannot offer

16 an answer to you, Commissioner, on that, which one. I

17 haven't made that examination and don't know.

18 COMMISSIONER JONES: Okay. Finally, on the

19 QF contracts issue, could you run through the logic again?

20 I think you said in response to a question

21 earlier that the difference in terms between the Oregon and

22 California contracts and the five years on the Washington

23 contracts, I think you said there would be significant cost

24 shifting to Washington customers.

25 Did you say that?

0585

1 THE WITNESS: Yes, I did.

2 COMMISSIONER JONES: Can you walk through

3 that logic for me?

4 I'm not talking about the price per megawatt

5 hours, the price; I'm talking about the term.

6 THE WITNESS: Well, the term is important.

7 And the term, when one applies the fact that

8 the size of the actual contracts themselves, the resources

9 that are being contracted for and the sheer number and

10 volume, when you apply those two right there, the magnifies

11 the effect of any differential with regards to avoided costs

12 that are reflected in these contracts.

13 So the fact is that you have a large number

14 of contracts, and I want to say just under a quarter of a

15 million megawatt hours there modeled in this case alone.

16 The exhibit that I had that shows the impact of that was to

17 kind of lay side by side what the load impact was of the

18 contracts vs. what the differential was.

19 And I think it's telling, when you look at it

20 from that basis on maybe an apples to apples comparison

21 between the impact of the -- what the Company's proposing in

22 its -- or making in its proposal to accept these contracts

23 vs. what happens in another company, given the fact that

24 these resources and the amount of power that we're talking

25 about are completely different, what is their impact and

0586

1 what it does to costs.

2 COMMISSIONER JONES: And how many contracts?

3 Do you have a number?

4 I'm sure you've looked at most of the

5 contracts in Oregon and California, have you not?

6 THE WITNESS: Yes, I did. And I actually did

7 count. I count over 80; 80 contracts that we're talking

8 about, at least what the Company had presented in the last

9 case when it provided the Commission a complete list of all

10 the QF contracts.

11 So you know, when you look at it compared to

12 the five that we're looking at from Idaho for Avista and the

13 amount of power we're talking about, I think we're talking

14 about two different things.

15 COMMISSIONER JONES: So you heard my

16 exchanges with Mr. Duvall this morning on repricing, right,

17 in years 6 through 11; if we were to adopt a repricing

18 proposal, how would this work operationally?

19 You heard that, didn't you?

20 THE WITNESS: Yes.

21 COMMISSIONER JONES: So do you have any

22 comments on that?

23 And I'm specifically trying to get at 80

24 contracts, a wide variety of avoided costs at different

25 times' expiration; this is going to be fairly complex. So I

0587

1 want your opinion on how much work this is going to take and

2 how are you going to verify this proposal if we do accept

3 that?

4 THE WITNESS: Well, I think that the first

5 thing is to kind of look -- when you look at what the

6 Company actually did to arrive at the repriced contracts, I

7 mean, if you look that alone, I mean, you really can't even

8 get past that in terms of the Company's proposal because,

9 you know, you first have to be able to accept -- and I think

10 the Commission would agree to my opinion that we would have

11 a great deal of problems with this because what it would do

12 is then I think the impact of this approach would be to, in

13 reality, treat in-state Washington QF's differently than we

14 would treat another state's, only for the purpose and

15 expediency of bringing them in to, you know, to calculate

16 net power costs for the Company, at least in the way the

17 Company proposes in this repricing proposal.

18 So that alone presents problems.

19 And there's also -- sorry.

20 COMMISSIONER JONES: Mr. Gomez, let me stop

21 you there.

22 But that doesn't necessarily make sense to

23 me. We have three contracts in Washington state, right?

24 THE WITNESS: Yes.

25 COMMISSIONER JONES: Only three. And there

0588

1 are like 80 or 100 --

2 THE WITNESS: Right.

3 COMMISSIONER JONES: So I don't necessarily

4 understand the -- and they appear with the Tieton contract

5 and the City of Walla Walla contract. So that doesn't

6 appear to me to be -- anyway, please proceed.

7 THE WITNESS: Well, okay. I think it's

8 important to understand the context behind what the avoided

9 costs -- the role it plays and the acquisition in the

10 resource planning procedure in Washington state.

11 To say that we're going to apply a different

12 process for the expediency of some cost allocation

13 methodology I think is going down the wrong path from a

14 policy perspective.

15 And I think the fact is that when the avoided

16 costs are calculated as a result of this repricing proposal,

17 what it does is I think it really endangers or sets on its

18 head the basic principle of ratepayer indifference, because

19 the avoided costs that are calculated, even through the

20 repricing proposal, really do not represent the avoided cost

21 that's actually present for Washington as calculated and

22 present in the Company's published tariff.

23 So what happens is that we depart from that.

24 And then we have some other methodology for calculating

25 avoided costs that's completely different.

0589

1 I think that's problematic from a policy

2 perspective.

3 COMMISSIONER JONES: So what are you

4 concerned about there?

5 Are you concerned about FERC under its

6 enforcement powers coming after the Washington State

7 Commission like they have with Idaho and saying we're

8 pursuing an unlawful action, or are you making a public

9 policy argument here that we the Commissioners have to make?

10 THE WITNESS: I never thought of it from a

11 perspective of risk of FERC coming after us.

12 But I think it does create some problems with

13 regards from a policy perspective if the sanctity of -- and

14 the context behind avoided costs in QF's, the roles they

15 play in the acquisition and resource planning process.

16 I think to interject a repricing proposal, I

17 think creates problems or could create, I suppose now that

18 you mention it, some perception in the minds of developers

19 here in Washington saying Oregon ratepayers are getting --

20 or the Oregon developers and QF's are getting a different

21 avoided cost than we are.

22 I think that creates a lot of problems. And

23 I think just beyond the administrative problems that Staff

24 would have to administer all these contracts and make sure

25 everything is lined up on a regular basis because it would

0590

1 be shifting constantly.

2 COMMISSIONER JONES: So let's step through

3 this a little bit.

4 So if there were a disagreement between Staff

5 and the Company on a repricing of, say, a wind contract

6 that's ten megawatts or five megawatts in Oregon, and you

7 disagreed with the way Mr. Duvall and the Company repriced

8 it.

9 How would that come to the Commission?

10 Would that come to us at an open meeting?

11 Would that come to us annually when the

12 avoided cost methodologies are set for all three IOU's and

13 presented to the Commission?

14 Have you thought through that a little bit?

15 THE WITNESS: Those are great questions. And

16 I think that -- no, I haven't thought those through.

17 But I think for that very reason that you

18 just said, Commissioner, I think the implication from a

19 policy perspective, you would have to open it up in a

20 broader sense.

21 And how does that affect other utilities?

22 How does that affect -- I think it's just

23 problematic.

24 This goes beyond whether or not you consider

25 the fact that these policies -- you know, the genesis of

0591

1 these policies are in a different state. We've set an

2 avoided cost, used their authority under PURPA to set

3 avoided cost a certain way and have the contracts,

4 standardized long-term contracts at a fixed cost for a

5 certain period of time. To do all of these things is a

6 state policy decision.

7 COMMISSIONER JONES: Mr. Gomez, you don't

8 appear to be very excited about implementing a repricing

9 alternative?

10 THE WITNESS: I don't like it at all.

11 COMMISSIONER JONES: Just briefly, if we went

12 with something, would you prefer that or the load decrement

13 proposal?

14 THE WITNESS: I think I like the load

15 decrement proposal even worse, because I think the load

16 decrement proposal departs even further.

17 I mean, I think that the load decrement

18 proposal is just simply another way of talking about the

19 Company's already discredited argument in the last case,

20 which was that -- this notion that power flow, the flow of

21 power determines the actual trend of -- let me find my

22 wording to make sure I say it correctly. It's been a long

23 day.

24 COMMISSIONER JONES: It's on page 14 and 15.

25 THE WITNESS: Situs allocation has nothing to

0592

1 do with the physical flow of power across state boundaries.

2 Situs allocation under the WCA methodology concerns only the

3 assignment costs.

4 I think that's the commission in -- that was

5 a resounding theme in Oregon, and I think it applies here.

6 So the load decrement proposal really just punishes

7 Washington ratepayers.

8 COMMISSIONER JONES: Thank you, Mr. Gomez.

9 As opposed to the PCAM issue, where you offer some

10 alternatives, on this one you appear not to be giving us

11 much flexibility to examine it.

12 The way I'm hearing you is from the Staff

13 perspective, it's rejected: reject load decrement, reject

14 repricing, just keep it with situs allocation.

15 Is that a correct understanding?

16 THE WITNESS: Yes, Commissioner.

17 COMMISSIONER JONES: Okay.

18 CHAIRMAN DANNER: So I want to make sure I

19 understand what you're saying. Putting aside the fact that

20 situs is in a current UTC order, and for that reason I

21 understand that you respect it and love it, but currently if

22 you had a blank slate to work with, do you think the status

23 quo is in fact fair to the Company?

24 THE WITNESS: Well, I think the Company

25 represents fairness on its -- I think it's convenient for

0593

1 the Company to say this isn't fair.

2 The reality is you have to really take a step

3 back and think about, you know, how the revised protocol was

4 arrived at in terms of the different treatments or different

5 ways it's allocated to QF costs, right?

6 Presumably there's been some kind of a

7 tradeoff. Nothing happens, at least as I understand it in

8 the revised protocol, without there being some kind of

9 consideration on the other end.

10 We're not privy to that; we don't understand

11 the mechanics of how that actually works, nor has the

12 Company really been forthcoming to tell us with regards to

13 the changes in the 2010 protocol which then all of a sudden

14 allocated on a systemwide basis these QF's. What was traded

15 off?

16 Was it the -- I'm trying to think of the word

17 -- hydro endowments, where some allocation associated with

18 the hydro endowments that favored one jurisdiction or made

19 the Company whole in one area or the other was used in order

20 to understand or to make all these different horse trades

21 that are associated with the revised PURPA? We don't know.

22 The point is that the Commission saw that the

23 most appropriate way -- and I think it applies to this day

24 -- to handle the cost allocation of QF contracts is on the

25 situs basis. It's the cleanest, it's the easiest to

0594

1 understand, and it's the one that ultimately puts those

2 costs with the jurisdiction, or in this case the state, that

3 is driving them. And I think that's our appropriate

4 alignment.

5 So yes, I do support the status quo WCA situs

6 allocation.

7 CHAIRMAN DANNER: Independent of the fact

8 that that's what we called for in the last order, you think

9 that that's --

10 THE WITNESS: Yes, I think the Commission was

11 absolutely --

12 CHAIRMAN DANNER: If you were up here, you

13 would say that's what you want?

14 THE WITNESS: And that's to say I think that

15 is the fairest outcome possible, given all the

16 circumstances.

17 CHAIRMAN DANNER: All right. Thank you.

18 JUDGE MOSS: Okay. Any follow-up?

19 MR. OSHIE: Yes, your Honor. I have a few

20 minutes.

21 MS. MCDOWELL: Your Honor, I'm going to have

22 a few questions if I may.

23 And I don't know if it's more appropriate for

24 me to jump ahead, Mr. Oshie.

25 JUDGE MOSS: You might want to go after her.

0595

1 MR. OSHIE: That would be fine, your Honor.

2 MS. MCDOWELL: However you would like to do

3 it.

4 JUDGE MOSS: You go ahead.

5 MS. MCDOWELL: Thank you, your Honor.

6 RE-CROSS EXAMINATION

7 BY MS. MCDOWELL:

8 Q Mr. Gomez, you talked about the complexity of the

9 Company's repricing proposal.

10 But isn't it true that on a going forward basis

11 all QF's would be treated the same, whether they're outside

12 of Washington or within Washington, so there's nothing

13 complex about that from a developer's standpoint, is there?

14 A Are you saying situs allocation?

15 Q No. I'm saying under the Company's repricing

16 proposal, all QF's would be treated the same, whether

17 they're within Washington or without.

18 A I'd have to disagree with that question, maybe

19 because I don't understand it really well. But I think

20 you're saying "treated" how?

21 Meaning -- you're meaning that the utility

22 compensates them based on their contract?

23 Q Let me just rephrase my question.

24 A Okay.

25 Q If all QF's, whether they're located outside of

0596

1 Washington or located inside of Washington, are given the

2 same price, there's nothing complicated about that, is

3 there?

4 A There is not. But the repricing proposal does not

5 do that.

6 Q So you're saying on a backward looking basis, the

7 legacy contracts, that calculation is complicated; is that--

8 A I'm not saying it's complicated. I think it's

9 wrong.

10 Q But on a going forward basis, it's all one price.

11 So there's no complexity there, is there?

12 A I'm struggling to understand.

13 Q It's all Schedule 37, correct?

14 A From a Washington perspective?

15 Are you saying then that the term lengths of the

16 contracts would reflect the current avoided cost schedule.

17 Q That's correct.

18 A That's different from your repricing proposal.

19 Q No, that's correct. Under the repricing proposal,

20 outside of the state, all QF's coming in here would be

21 deemed to be treated the same as Washington QF's in all --

22 A Is that a new proposal?

23 Q That's the Company's proposal on a going forward

24 basis.

25 A That's not the way I understand it.

0597

1 Q So maybe we have a misunderstanding.

2 In the Commission case Washington Water Power, the

3 Commission did reprice a QF in just this way, didn't it?

4 A No, it did not.

5 Q So we have another disagreement, don't we?

6 A Yes. I read that order a couple of times and saw

7 Mr. Duvall's rebuttal that said it was repriced.

8 I don't know how he got to that conclusion. But

9 what I'd say the revenue requirement on a Washington

10 allocated basis for that contract was 6.1 million dollars.

11 And the Commission, as far I read the order, in 1983

12 rejected that revenue requirement in its entirety.

13 So I don't know what you are referring to or

14 Mr. Duvall is referring to when he says reprice.

15 Q So Mr. Gomez, it's true, isn't it, that in your

16 responsive testimony in this case you dedicated exactly one

17 paragraph addressing the Company's repricing proposal?

18 A Which paragraph are we talking about?

19 Q That's the paragraph at the bottom of page 15.

20 A Okay. Page 15 of the --

21 Q And the top of page 16?

22 A Top of page 16. Yes.

23 Q So the concerns you were raising about this

24 proposal are concerns that have come to you since the time

25 you filed this testimony?

0598

1 A No. I think for the sake of brevity and

2 simplicity, I think that that statement there covers it. I

3 think --

4 Q Well, the reason I'm asking is because the Company

5 hasn't had a chance to respond to any of your concerns about

6 the repricing proposal because you didn't raise them in your

7 testimony, did you?

8 A I did. I said the repricing proposal should be

9 rejected, as with the load decrement.

10 Q In one paragraph, correct?

11 JUDGE MOSS: Ms. McDowell, I'm going to

12 caution you, you're going beyond the purpose of this stage

13 of the testimony, which is to follow up to questions from

14 the bench.

15 MS. MCDOWELL I'm through.

16 JUDGE MOSS: Mr. Oshie?

17 MR. OSHIE: Thank you, your Honor.

18 RE-DIRECT EXAMINATION

19 BY MR. OSHIE:

20 Q Mr. Gomez, I have a few questions. So let's start

21 with the references to the State of Idaho.

22 Does the State of Idaho -- excuse me; Avista.

23 Does Avista have a WCA or anything like this?

24 A Not that I'm aware of, no.

25 Q Do you know what the -- have you been able to

0599

1 determine the rate impact from allocate Idaho QF's to

2 Washington?

3 A Yes, I did. It's in my exhibit. In fact, let me

4 get to it.

5 Exhibit DCG-3, if you look at that exhibit, what I

6 showed is contribution to system load vs. contribution to

7 system NPC on a contract to market price differential.

8 Q Is that different from what's being proposed by

9 the Company in this case?

10 A Yes.

11 Q As far as the monetary difference?

12 A Yes. And it's significant.

13 The purpose of my exhibit was to show it not on a

14 whole dollar standpoint as much as it is on a comparative

15 basis.

16 Q Do you know if Avista brought its QF's for

17 Washington's consideration on a case by case basis, or was

18 it just bundled up as a group of QF's to say, Here's what

19 we've done and we want you to price it looking backwards, or

20 even to price it as a group at the current avoided cost

21 rates?

22 A No. It made no such representation.

23 Q So let me go back to the WCA. It's my

24 understanding that the WCA was -- let me put it a little

25 differently so I can ask the question differently.

0600

1 It's clear that the WCA in its current form

2 allocates QF's to the states that have approved the

3 contractors, or said a different way, where the facilities

4 are located. Has that changed since the WCA has been

5 adopted?

6 In other words, has the situs allocation

7 principle?

8 A I think are you referring to what the

9 classification is of the resource, meaning like a state

10 resource?

11 Is that what you're referring to?

12 Q Well, I'm not -- what's your understanding, Mr.

13 Gomez, of how the WCA treats QF's located in different

14 states?

15 A Situs allocation.

16 Q And has that been the same since that was it was

17 proposed by the Company for adoption in the 2006 rate case?

18 A Yes. The Company, when it proposed the WCA,

19 proposed that situs allocation for those resources.

20 Q Earlier in your testimony you talked about a

21 five-year rollover.

22 And I believe Commissioner Goltz mentioned that as

23 well?

24 A Yes.

25 Q Could you explain that to the Commission, please?

0601

1 A Well, what that means is that first of all the

2 threshold test is the size of the resource as far as

3 reflected on the Company's tariff. A resource that's two

4 megawatts and smaller can use the Schedule 37 avoided cost

5 schedule and use the published avoided costs to -- and would

6 get those costs fixed for five years. So that schedule

7 itself would be valid.

8 So let's say if the contract were perhaps longer

9 than that, the Company at the end of the five years would

10 have to renew the contract based on the current avoided

11 costs that are in the Company's schedule for Washington that

12 are published.

13 So it can only use those for five years. They're

14 only good fixed for five years.

15 Q And are the avoided costs re-evaluated at the end

16 of the five-year period?

17 A The avoided costs for the State of Washington, I

18 believe, are re-evaluated yearly.

19 It's just in the case of the contract, yes, it

20 would be refreshed every five years.

21 Q So there was a question by Ms. McDowell about the

22 resource diversity I believe provided by the Company's

23 Washington QF's already in existence.

24 Do you have any further thoughts on that?

25 A Well, it's a very small amount of power when we

0602

1 talk about the Washington QF's contribution to total power

2 costs in terms of overall load. So their contribution as

3 far as capacity is very, very small.

4 Q Do you consider that resource diversity that they

5 provide material in any way?

6 A No.

7 MR. OSHIE: I believe that's all I have, your

8 Honor.

9 JUDGE MOSS. Thank you. Are we good?

10 All right. Mr. Gomez, thank you for being

11 with us this afternoon. You may step down.

12 And our next witness will be Mr. Twitchell.

13 Is the Company estimating 20 minutes for Mr. Twitchell?

14 MR. LOWNEY: Your Honor, I think we will

15 stick with the trend and hopefully be less than that.

16 JUDGE MOSS: And how about The Energy

17 Project?

18 MR. PURDY: If I can read my handwriting, I

19 can pare it down considerably.

20 JUDGE MOSS: We'll count on you to do that.

21 How about you, Ms. Davison?

22 MS. DAVISON: Five to ten.

23 JUDGE MOSS: And Alliance for Solar Choice?

24 MR. WIEDMAN: I'm waiving cross.

25

0603

1 JEREMY TWITCHELL, witness herein, having been first

2 duly sworn on oath, was examined and

3 testified as follows:

4

5 DIRECT EXAMINATION

6 BY MR. OSHIE:

7 Q Mr. Twitchell, we'll start off with an easy

8 question, which is can you please state your name and spell

9 your last name for the record?

10 A We'll find out. My name is Jeremy Twitchell;

11 J-E-R-E-M-Y, T-W-I-T-C-H-E-L-L.

12 Q Now you have your prefiled testimony that has been

13 admitted. Have there been any changes to your testimony

14 that you'd like to make now?

15 A No, there is not.

16 Q All right. Thank you.

17 MR. OSHIE: So we tender the witness for

18 cross-examination, Judge.

19 JUDGE MOSS: Thank you. The Company will go

20 first.

21 CROSS-EXAMINATION

22 BY MR. LOWNEY:

23 Q Good afternoon, Mr. Twitchell. My name is Adam

24 Lowney. I'm counsel for Pacific Power.

25 I'd like to just begin by asking you a few

0604

1 questions about the residential rate design you proposed.

2 So if we could begin on page 27 of your testimony, please.

3 A Okay.

4 Q And on lines 7 through 10 of that testimony you

5 propose your new three-tier residential rate design; is that

6 correct?

7 A That is correct.

8 Q And for a frame of reference, the Company's

9 current rate design has a two-tier in climbing blocks; is

10 that correct?

11 A That's correct.

12 Q So you're proposing to add a whole new rate block?

13 A That is correct.

14 Q Would you agree that adding a new rate block is a

15 complicated matter?

16 A No. I would not agree with that.

17 Q You would agree, though, you're establishing a new

18 level of -- a new cutoff, and you're establishing a new

19 price, correct?

20 A That is correct.

21 Q And you devoted quite a bit of your testimony to

22 outlining exactly why you're making the proposal you're

23 making, correct?

24 A Correct.

25 Q And are you familiar with the Staff's proposal in

0605

1 the last Company rate case?

2 A Can you be a little more specific?

3 Q I guess we do agree that the Company made a

4 similar proposal for a three-tier climbing rate block

5 residential rate design in the last rate case?

6 A Company or Staff?

7 Q Staff; excuse me.

8 A Yes.

9 Q And would you agree that in that case the parties

10 decided that further study was necessary prior to making

11 such a significant change to the Company's residential rate

12 design?

13 A I recognize that there was a settlement agreement

14 to that effect.

15 Q And part of that settlement agreement was that

16 Pacific Power was going to conduct a study that would inform

17 the issues relating to Staff's proposed three-tier rate

18 design; is that correct?

19 A That is correct.

20 Q And is it your understanding that the Company

21 filed the results of that study in July of this year?

22 A Yes.

23 Q Now going back to your testimony generally, is it

24 correct that you made no reference to the study anywhere in

25 your discussion of your rate design proposal?

0606

1 A I believe that is correct.

2 Q Now I'd like to move on and talk a little about

3 how you determined the cutoffs for your rate design.

4 A Okay.

5 Q If you could turn to page 28 of your direct

6 testimony?

7 A All right.

8 Q And I'm going to refer you to lines 1 through 9 of

9 that initial paragraph, just for frame of reference. And

10 you testify in that paragraph that you relied on data from

11 the Housing and Urban Development Administration to

12 calculate the 800 kWh cutoff for your first tier; is that

13 correct?

14 A That is correct.

15 Q And the HUD data that you relied on is national

16 data; is that correct?

17 A That is correct.

18 Q It's not specific to Washington or the Pacific

19 Northwest region?

20 A It is not.

21 Q And isn't it true that in the last case Staff also

22 relied on data from the Housing and -- from HUD?

23 A That is my understanding.

24 Q Okay. If you could please turn to the

25 Cross-Examination Exhibit JBT-10CX.

0607

1 A Okay.

2 Q And I'd like to direct your attention to page 2 of

3 the transcript -- or excuse me; to page 2 of the exhibit,

4 which is four pages from the transcript. And in particular,

5 if you look on page 582 of transcript in the upper left

6 corner, there's a Q and A that begins on line 10 from

7 Commissioner Goltz to Mr. Mickelson.

8 And Mr. Mickelson was a Staff witness in that

9 case; is that correct?

10 A Yes.

11 Q And the Q&A discusses the study that the company

12 agreed to perform.

13 And I'm just going to read you what Mr. Mickelson

14 testified to. He said, "I believe from the study, in Ms.

15 Steward's rebuttal she did bring up concerns about using

16 national data, I believe 2001 data, and so by using the

17 study, Staff and other parties will be able to use

18 information that is, A, relevant to this company and to

19 their service territory, and so in setting rates based off

20 that, I think that is a good outcome."

21 Do you agree that's what Mr. Mickelson testified

22 to in his transcript?

23 A That's it what it appears.

24 Q And yet in this case, the Company relied on the

25 same national data, but as you testified to, you didn't

0608

1 refer at any point in your testimony to the Company-specific

2 study?

3 A Staff relied on the national data.

4 Q Staff relied?

5 A Yes.

6 Q Okay. If you could please turn to -- I guess

7 we're still on page 8 of your testimony.

8 On the bottom of that page lines, 20 and 21, this

9 is your discussion of where you said the second cutoff for

10 the -- the cutoff between your second and third tier. And

11 you testify that you set the second block at 1700 kWh in

12 recognition that most of Pacific Power's Washington

13 customers rely on electric heating; is that correct?

14 A That is correct.

15 Q And would you agree that the Commission has

16 recognized that -- excuse me.

17 You testified that the 1700 kWh level that you

18 proposed corresponds to the average winter usage for Pacific

19 Power customers; is that correct?

20 A That is correct. I chose that number because as

21 has come up in this hearing, the average use on an annual

22 basis is 1300 kilowatt hours per month.

23 I felt that by setting that third block at 1700

24 kWh per month, if you read the following lines at the top of

25 page 29, it does recognize that most customers are reliant

0609

1 on electric heating. And so by setting that well above the

2 system average, it would recognize that fact and allow for

3 users to use more electricity for electric heat in the

4 winter without being adversely impacted by this proposed

5 rate design.

6 Q Would you agree that the Commission has recognized

7 that temperature can have a significant impact on the

8 Company's residential customers, given their reliance on

9 electric heat we were just discussing?

10 MR. OSHIE: Objection, your Honor.

11 Can Mr. Lowney please refer to the document

12 that he is referring to in his question or an order of some

13 kind?

14 MR. LOWNEY: I would be happy to.

15 Q (By Mr. Lowney) Mr. Twitchell, are you familiar

16 with the Company's order -- excuse me; the Commission's

17 order in the Company's 2010 rate case?

18 A In that I have looked at it before, yes.

19 Q And in paragraph 218 of that order -- and I'll

20 just read you a quote and we have copies if you'd like to

21 look at it. The Commission said, "We find that temperature

22 normalization is a more appropriate method to estimate test

23 year sales because many of PacifiCorp's customers use

24 electricity for space heating, and temperature may have a

25 significant impact on customer usage."

0610

1 Does that sound familiar to you?

2 A Yes, it does. But I think that what the

3 Commission was saying there is that weather is not something

4 that can be appropriately planned for in any rate design.

5 It is not something known and measurable.

6 So that is why, as a matter of practice, the

7 Commission does a temperature adjustment to the billing

8 determinants during the test year to remove the impact of

9 weather from the determinants used to set rates.

10 Q Well, given that winter usage is largely tied to

11 electric heat, would you agree that usage greater than 1700

12 kWh per month is largely weather related?

13 A I would not agree with that as a general rule.

14 I think there are studies -- I think there is a

15 large number of heavy use customers who are well above that

16 regardless of the time of year.

17 Q If you could please refer to page 27 of your

18 testimony?

19 A Okay.

20 Q And on lines 18 to 19, you describe the rationale

21 behind the three-block rate design. And your testimony

22 states that it serves two key purposes: To create a clear

23 pricing for residential customers, to be more efficient, and

24 to follow the principles of cost causation.

25 Do you see that testimony?

0611

1 A Yes, I do.

2 Q I'd like to ask you a few questions about the

3 first part of that rationale, being the clear price signal

4 for residence customers?

5 A Okay.

6 Q So if you could please turn back to page 29 of

7 your testimony?

8 A All right.

9 Q And at the top of that page, on lines 3 to 4, you

10 state that under Staff's proposal, rates for all usage

11 between 600 and 1700 kWh would be reduced from their current

12 levels; is that correct?

13 A That is correct.

14 Q And I believe you previously testified that

15 average usage was 1300 per kWh month; is that correct?

16 A Correct.

17 Q So under your proposal, the average customer would

18 receive a rate decrease; is that correct?

19 A That is correct. I would just add that that is a

20 function of Staff's lower revenue requirement.

21 Had this rate design been implemented with the

22 Company's revenue requirement, that would not have been the

23 case.

24 Q And to be clear, the Staff does not support the

25 Company's revenue requirements in its entirety?

0612

1 A That is correct.

2 Q But you would agree that Staff's position in this

3 case does require for an overall revenue requirement

4 increase; is that your understanding?

5 A Yes.

6 Q So even though costs are increasing, your rate

7 design would lower cost for nearly half of all customers

8 bills; is that correct?

9 A What my rate design does is recognize those

10 increasing costs, but assign them to the customers who are

11 using above system average, who have high usage, who are in

12 large part driving those costs.

13 Q Now would you agree that if a customer's bill

14 decreases, it's likely to result in greater usage?

15 A I think that's a potential outcome. I wouldn't

16 call it likely.

17 Q If you could please turn to the cross-examination

18 we've labeled JBT-12CX.

19 A Okay.

20 Q And this is a report from the National Regulatory

21 Research Institute. And the report is entitled "How to

22 Induce Customers to Consume Energy Efficiently: Rate Design

23 Options and Methods"; is that correct?

24 A That's correct.

25 Q And this is a document you cited in your testimony

0613

1 that you relied on in designing your rates; is that correct?

2 A That is correct.

3 Q If you could please turn to page 13 of the exhibit

4 which again, unfortunately, I don't think will tie directly

5 to page 13 of the -- or excuse me; it's page 13 of the

6 exhibit, which is page 7 of the actual document.

7 And I'm just going to read you a sentence. And

8 this is, I believe, the third sentence in the first full

9 paragraph on that page. And it says, "If most customers

10 would see lower peak rates under declining block rates

11 without changing their consumption, the rates would not

12 encourage energy efficiency."

13 Do you see that sentence?

14 A I do.

15 Q Would you agree with that sentence?

16 A I would agree with that sentence.

17 But I would dispute the premise that my proposed

18 rate design would achieve that outcome.

19 Q But you agree that most customers would experience

20 lower overall rates, correct?

21 A No, I believe that it was about 45 percent.

22 Q Okay. So roughly half?

23 A Roughly.

24 MR. LOWNEY: Thank you, Mr. Twitchell. I

25 have no further questions.

0614

1 JUDGE MOSS: Thank you very much.

2 Mr. Purdy?

3 CROSS-EXAMINATION

4 BY MR. PURDY:

5 Q Thank you. I think I will strive to be a little

6 more conceptual with you and focus on the two areas of basic

7 charge and your third tier proposal.

8 Now your testimony -- perhaps this has been

9 covered. I try to take notes. I'm sorry if I missed some.

10 Your testimony regarding rate design seeks two objectives or

11 principles; one, insuring reliable recovery of the utility's

12 fixed costs, and two, sending a clear price signal.

13 Is that a fair statement?

14 A Yes, that's a fair statement.

15 Q Would you agree with the third principle of what

16 has been referred to in this case as gradualism?

17 A I would.

18 Q I've heard that referred to by other names, rate

19 shock or just moving incrementally toward something, but

20 same thing in my mind, would you agree?

21 A I think those are fair synonyms.

22 Q All right. Have you incorporated that concept or

23 that principle into your proposal in this case in your mind?

24 A Yes, I have. As I explained in my testimony, that

25 although there is a significant increase in the basic

0615

1 charge, there is an offsetting benefit in the form of lower

2 volumetric rates.

3 So I think when you're talking about gradualism,

4 you have to look at the big picture. You have to look at

5 what is impact on the total bill. You have to think of it

6 more like a pie; that we may be changing the shapes of some

7 slices, but we're not changing the shape of the pie based on

8 where we set a basic charge.

9 Q Okay. I'll come back to that in a moment.

10 You expressed concern about the Company's slowing

11 load growth due to what you characterize as end use

12 efficiencies and DG, or distributed generation, which is

13 really just self-generation, correct?

14 A No. I was very careful in my testimony not to

15 attribute the Company's slowing load growth to DG, because I

16 do not agree with the Company's assertion that that is a

17 factor.

18 However, I do recognize that increased energy

19 efficiency as largely driven by the Energy Independence Act

20 has been a factor in the Company's slowly declining load

21 growth.

22 Q Thank you for that correction.

23 So could you give me an idea of what type of end

24 use efficiencies you're referring to?

25 A Absolutely. So the Energy Independence Act

0616

1 requires utilities to pursue all cost effective energy

2 efficiency.

3 And I referred to some of those in my testimony,

4 if you'll bear with me for a moment.

5 Well, PacifiCorp is saving several thousand

6 megawatt hours per year. I believe it was about 6700,

7 possibly, in the last -- excuse me; in 2013.

8 Q Okay. Fair enough.

9 Would you agree with me that to the extent that a

10 customer can reduce their own consumption through

11 efficiencies, that generally speaking, low-income customers

12 have less ability to do that?

13 A I would agree that they have less.

14 I would not agree that they have very little.

15 The Company -- Pacific Power's energy efficiency

16 programs have demonstrated very large significant savings

17 from low cost and no cost measures, such as lightbulbs,

18 which thanks to the Company incentives are very low cost,

19 and the behavior program that the Company is running that

20 has also achieved significant savings at no additional cost.

21 So I think there are very real savings available

22 to customers, regardless of their income.

23 But I do recognize that there are certain measures

24 such as-- well, large capital expenditure measures, larger

25 appliances, in which a low-income person would be less able

0617

1 to participate.

2 Q You note that the Company has no decoupling

3 mechanism, and you contend that the shifting of costs to a

4 basic charge to include the recovery of fixed costs is

5 effectively a decoupling proxy; is that a fair statement?

6 A I think that's a fair statement.

7 Q Okay. To the extent that certain low income

8 customers might have very low usage -- perhaps they're

9 fortunate enough to live in a senior center that is

10 relatively new and well-insulated or a lower income housing

11 project, and are largely consuming within the first block --

12 would you agree that they have relatively little ability to

13 reduce their consumption?

14 A I would absolutely agree with that.

15 However, I would also add that in a rate design

16 that recovers a large share of fixed costs through

17 volumetric charges, such as what PacifiCorp has presently,

18 that these customers are not fully contributing to their

19 share of the fixed costs to provide service.

20 Q But didn't you also testify that your rate design

21 proposal will -- that customers primarily consuming within

22 your first proposed first block will experience a rate

23 increase?

24 A Yes, I did.

25 Q All right. And I believe that you conceded that a

0618

1 basic charge increase to some extent conflicts with price

2 signals, fair enough?

3 A Fair enough.

4 But I believe I addressed that with the creation

5 of the third block.

6 Q Okay.

7 A As I stated in my testimony, there are two

8 competing policy concerns here: Insuring the Company

9 greater recovery of its fixed costs, and also insuring that

10 the customers have the proper incentives to use energy

11 efficiently.

12 Going back to that pie analogy, if we do increase

13 the basic charge, then that's a smaller piece of the pie

14 volumetric charges. And on its face, you could say that

15 customers have less of an incentive.

16 However, by adding the third block, we've

17 essentially countered that by creating a strong price signal

18 that although a smaller share of the costs are being

19 recovered in those volumetric charges, there's a strong

20 price signal to clearly communicate to the customer that

21 they can achieve real savings by reducing their usage.

22 Q But again, if we're talking about low-income

23 customers consuming primarily within that first block,

24 they're going to see a rate increase and not have the

25 opportunity to reduce their consumption; isn't that true?

0619

1 A That's true.

2 Q Thank you.

3 And you acknowledge that you're trying to strike a

4 balance in these competing principles, sending a clear price

5 signal and the other.

6 And I believe you acknowledged that gradualism is

7 a legitimate principle as well; is that true?

8 A True.

9 Q But aren't you proposing nearly doubling the

10 residential basic charge -- my math is not very good -- but

11 from 7.75 to $13?

12 A I am. But again, I would dispute that that

13 conflicts with the principle of gradualism, because there

14 are corollary benefits and reduced volumetric charges that

15 offset that increase for the large majority of customers.

16 Q Okay. I'll get to that. Thank you.

17 Now, you might have answered this already. I

18 apologize if so. Your proposed three tiers, is it true that

19 the volumetric rate for the third tier is roughly double

20 that for the first tier?

21 A Not quite double, but in the ballpark, yeah.

22 Q Isn't it about 6.4 cents for the first year to

23 just under 12 cents for the third?

24 A Correct.

25 Q Would you consider this a gradual change?

0620

1 A If this were the only change to the rates, I would

2 not.

3 However, again pointing out that the rate design

4 has given customers incentives to reduce their usage, I

5 believe that by pursuing the policies of the State to

6 encourage customers to be more efficient does justify some

7 tradeoffs. And I am aware that this does represent a

8 significant charge or a significant increase in the

9 volumetric rates.

10 But again, taking everything as a whole, what the

11 basic charge is, where the blocks are set, and who we're

12 sending that price signal to, I believe that I have

13 accounted for those tradeoffs and come up with something

14 that fairly balances these concerns.

15 Q And I appreciate your candor, Mr. Twitchell. I

16 just want to be sure that we understand that I'm just, of

17 course, addressing lower income interests and lower income

18 customers.

19 A I understand.

20 Q And is it a fair statement that your proposed

21 third tier, beginning at 1700 kilowatt hours a month, rests

22 on the presumption that those customers who use that amount

23 and above have a high degree of price elasticity; in other

24 words, they have discretionary usage?

25 A More so than people below that line, yes.

0621

1 Q All right. Are you familiar with the testimonies

2 of Mr. Eberdt and Ms. Joelle Steward in this case?

3 A Yes, I am.

4 Q I assume of course you're familiar with your

5 coworker's, Mr. Kouchi's testimony?

6 A Yes, I am.

7 Q What would you say to the proposition that there

8 are low -- that there might be a considerable population of

9 low-income customers who are exceeding 1700 kilowatt hours a

10 month, especially during the winter months, and who might

11 have electric heat that have very little price elasticity or

12 discretion in their usage?

13 A I do want to clarify one thing. Much of the

14 analysis that has been done in the testimony has revolved

15 around how much customers are above 1700 kilowatt hours a

16 month.

17 However, I don't believe that's the appropriate

18 point for the analysis. Since there are lower volumetric

19 rates in the first two tiers, you actually have to go to

20 about 1950 kilowatt hours per month before that's an adverse

21 impact under this proposed rate design.

22 And I do recognize that there are low-income

23 customers who are above that line. However, any attempts or

24 any concerns that lie with the treatment of low income

25 customers are a policy call.

0622

1 When I was doing the cost of service study and the

2 rate design, it's all about what makes sense for the class:

3 Looking at the cost of service study, looking at what share

4 of its cost each class is paying, what increase would be

5 appropriate to each class to insure that they're paying a

6 relatively fair share of their costs; and then determining

7 within each class how to allow the Company to recover those

8 costs, how to set up the rates so the company could recover

9 those costs. Anything after that is a policy question.

10 Increasing the basic charge, setting the -- well,

11 excuse me. The third tier, I admit, is largely a policy

12 question, as is the treatment of low income people.

13 And I would just point out that the State and the

14 Company have been very proactive in this area. There are a

15 number of programs available. There is low-income bill

16 credit. There is the low income weatherization program. The

17 Company has an equal pay program to level bills throughout

18 the year.

19 Personally I felt that the existing suite of

20 low-income programs would be sufficient to address any needs

21 of low-income customers we have under my proposal.

22 However, recognizing that there would be people

23 that disagree with that position, I prepared an alternate

24 proposal for a reduced basic charge for low-income people in

25 the case the Commission felt another tool would be necessary

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1 for the tool box.

2 Q It sounds like you have in your testimony engaged

3 in no small degree of policy consideration, true?

4 A I think that's fair.

5 Q And I think you mentioned the suite of

6 opportunities, if you will, for low-income customers, and

7 you included the bill assistance program.

8 Isn't it true that your colleague, Mr. Kouchi, has

9 pointed out amply that that program serves 5.6 percent of

10 the residential population and that his estimates of the

11 true low-income population that would otherwise be eligible

12 for bill assistance is many times higher than that?

13 Do you agree?

14 A I have seen that testimony. Yes.

15 Q All right. So is it fair to say that -- well,

16 strike that.

17 In making your policy decisions and considerations

18 with respect to low-income interests, isn't it true that you

19 had really nothing but that bill assistance data and the

20 consumption data for people that participate in Schedule 17

21 bill assistance to rely upon to consider their consumption

22 and the effects that various rate design proposals might

23 have on them?

24 A That is true. Ultimately the only thing on which

25 staff can rely in making recommendations is what's known and

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1 measurable. The only thing known and measurable in this

2 case is the number of customers on the low-income assistance

3 tariff.

4 Any argument that there may be a much higher

5 percentage of customers that would fall into that I think is

6 well-taken. But ultimately I would not feel comfortable

7 recommending rates based on a presumption of how many people

8 fall into the category.

9 Q You used what you have?

10 A Correct.

11 Q Okay. Fair enough.

12 And do you agree that Mr. Kouchi proposed that

13 considerable analysis be conducted to enhance our knowledge

14 of actual low-income populations, the nature of their

15 consumption, the types of residences they live in, their

16 heating sources, and much more?

17 A I'm aware of that.

18 Q And would you agree that he feels that our current

19 level of knowledge as to those low-income considerations is

20 quite inadequate?

21 A I would agree with that.

22 And I recognize that as you pointed out that -- or

23 as I'm inferring from what your questions are that the

24 existing suite of programs may not be enough to fulfill the

25 actual need. And that was part of what was going on in my

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1 thought process when I adopted the Company's alternate

2 recommendation as far as providing a lower basic charge for

3 low-income customers, recognizing that maybe we aren't doing

4 enough; maybe we need to do more, particularly under the

5 potential impacts of this rate design.

6 Q Thank you for your candor. I appreciate that.

7 Excuse me, your Honor. I'm just going to

8 hopefully move ahead quickly here.

9 And just to touch on what's already been largely

10 covered, is it fair to say that Pacific Power & Light has a

11 relatively high percentage of electric heaters compared to,

12 say, PSE and Avista?

13 A I'm not aware of what the electric heat

14 penetration rates are for those utilities. So I would not

15 feel comfortable answering that.

16 Q Are you comfortable answering whether the service

17 territory of Pacific Power would generally be colder in

18 winter months than that of PSE?

19 A I think that's possible. But I haven't seen any

20 analysis of that. So again, I would hesitate to answer.

21 Q You don't watch the weather as much as I do,

22 apparently.

23 A That's probably true.

24 Q It happens when you get old. Okay. Walked right

25 into that.

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1 And with respect to those low-income customers who

2 do have electric heat, would you agree with me that they

3 might have many obstacles to changing their heat source?

4 And those could include, of course, lack of money

5 to convert to another fuel source, for instance, natural

6 gas; they might not own their premises, they might not own

7 the furnace and can't or don't have the authority to change

8 that; and other considerations like that?

9 A That is true. And I have tried to be sensitive to

10 that. I believe in my testimony I pointed explicitly that I

11 was -- my proposed position for the third block was in

12 deference to the need for more electric heat in the winter.

13 I also noted in my proposal to extend the first

14 black out to 800, I pointed out that PacifiCorp in general

15 has higher usage. That was a kind of a tacit

16 acknowledgement that people need to use more electricity for

17 heat by allowing more usage at a lower rate in freeing up a

18 little bit of usage at that higher end.

19 Q Would you agree with me also that low-income

20 customers tend to have much poorer housing stock and homes

21 and residences that are far less energy efficient?

22 A That's probably a fair assertion.

23 Q Thank you.

24 So to the extent that the third tier is intended

25 to get at discretionary usage, isn't it true that all these

0627

1 things that we discussed that limit low-income customers

2 from affecting their usage, the price signal that you're

3 going for is lost on those customers to a certain extent?

4 A I wouldn't agree with that.

5 As I pointed out, there are significant savings

6 available to all customers at low cost or no cost. So I

7 wouldn't agree that they are unable to respond to any

8 pricing.

9 I think that there's a policy question as far as

10 how strong we want that price level to be. If the

11 Commission does feel that Staff's proposed pricing level is

12 too strong, there are alternatives there for the alternative

13 basic charge to blunt that impact a little bit so that the

14 price signal is still there to some degree, but not to the

15 same level that it would be for a customer on another

16 tariff.

17 Q Okay. Fair enough.

18 And finally, to the extent that the low-income

19 customers who are unavoidably using a fairly high level of

20 electricity during the winter months to heat, and to the

21 extent that they are also, of course, going to in your

22 proposal, receive a considerable increase in their basic

23 charge, could you say they're getting a double hit on both

24 ends?

25 A I would not agree with that at all, because if

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1 they are using more than 1700 kilowatt hours a month they

2 are fully offsetting the increase of that increased basic

3 charge. They're not paying more because of the basic charge

4 than they otherwise would have, all else being equal.

5 Q Then I just have a couple questions about

6 something you said. So if you could quickly refer to your

7 page 34, line 19, do you have that?

8 A Yes, I do.

9 Q Where you are asked the question, "Is Staff

10 proposing a special rate for low-income customers," and you

11 say, "No, not as part of its primary proposal."

12 By "rate," what are you referring to, the bill

13 assistance program?

14 A Sorry. I was referring to any rate design that

15 would treat the low-income customers differently than the

16 other residential customers.

17 Q Okay. Isn't that effectively what Schedule 17

18 does?

19 A I would disagree with that because the tariff

20 rates are still the same. There's just an additional...

21 Q Discount?

22 A Yes. On top of that, but the underlying rates do

23 not change.

24 Q Okay. And then you testify, moving to page 35,

25 line 6 through 8, that Staff's proposal would allow the

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1 company to -- excuse me. Strike that.

2 On page 35, line 6 through 8 you state that the

3 Staff recommends that the Company and its implementing

4 partners re-evaluate where that level is set based on the

5 outcome of this case. That was a partial sentence. I'm

6 sorry.

7 But again, are you referring to the Schedule 17

8 bill assistance program there?

9 A Yes. So my understanding of that program is that

10 it provides customers with a credit for all usage above 600

11 kilowatt hours, that being where the block is currently set.

12 My recommendation here was simply to point out

13 that if the Commission does approve a different block set,

14 the Company and its partners may want to reconsider where

15 that credit is set, is triggered.

16 Q Do you know what the ability of the company and

17 the partners is with respect to a possible re-evaluation?

18 A My understanding when I wrote my testimony was

19 that this would be a minor change that could be worked into

20 the five-year plan.

21 However, it has come to my attention that that may

22 not be the case.

23 Q So you don't know one way or the other whether

24 this is possible; is that true?

25 A I do not.

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1 Q Okay. And again, then, you mentioned this

2 earlier, that you proposed an alternate recommendation to a

3 basic charge somewhat like the Company's that would be

4 reduced for low-income customers, true?

5 A Correct.

6 Q But this would be limited to the 5.6 percent of

7 the residential population that we know are Schedule 17

8 customers, true?

9 A True.

10 Q And then my final question -- and it's a bit of a

11 narrative, and if I get an objection so be it. I just

12 really want to --

13 MR. OSHIE: You teed that one right up.

14 MR. PURDY: Get the pain out of way first.

15 Q (By Mr. Purdy) But really, I am curious about

16 your thoughts on this: Given that by math -- and that's

17 always suspect -- this utility has filed rate cases, I think

18 about 2009, '10, '11, '12. I mean, it seems like every

19 year. Perhaps it's --

20 A Seven of the last nine, I believe.

21 Q Pardon?

22 A Seven of the last nine, I believe.

23 Q It doesn't seem that there's any concern that we

24 need to make a decision right now for fear that we won't

25 have a chance to revisit these issues later, does it?

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1 A I would disagree with that.

2 I think the Company is already experiencing

3 declining loads.

4 I think that there are broader regulations coming

5 down the pike that will encourage, if not require,

6 Washington utilities to achieve greater energy efficiency

7 savings.

8 I think the time to start thinking about these

9 things is now. I think that in a future rate case it would

10 certainly be ripe for re-evaluation, looking at what did we

11 do, what has been the impact, do we need to move the box a

12 little bit in one direction or another, but I do feel there

13 is enough pressure right now for the Commission to seriously

14 consider these things.

15 Q And I don't dispute your sense of urgency for

16 consideration of these things.

17 I guess what I'm getting at is, is there such a

18 hurry that we need to decide right now these proposals that

19 are -- that have -- could have a significant impact on

20 low-income customers before we at least take the harder look

21 at low-income customers, such as recommended by your

22 colleague Mr. Kouchi, by Mr. Eberdt, and others.

23 Is there any reason for such a hurry at this

24 moment?

25 A As I said, I believe that the time is right for

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1 these -- for my recommended changes to be implemented. I

2 would not have recommended them otherwise.

3 And again, we can only design rates based on

4 what's known and measurable. If the study does provide

5 additional data that changes what is known and measurable,

6 then I think we can make adjustments as needed.

7 But I do feel strongly that this rate design is

8 appropriate now, and that it has been -- I have taken all

9 things into account, and I believe I have found a balance

10 between these competing concerns and these trade-offs.

11 MR. PURDY: All right. Thank you. You've

12 been very cooperative, and I appreciate it.

13 JUDGE MOSS: Thank you, Mr. Purdy.

14 Ms. Davison?

15 CROSS-EXAMINATION

16 BY MS. DAVISON:

17 Q Good afternoon, Mr. Twitchell. I'd like you to

18 turn to page 18 of your direct testimony.

19 If you look at the sentence starting on line 18

20 and 19, basically you say that Staff maintains that cost

21 causation should be the starting point of any cost of

22 service analysis.

23 Do you see that?

24 A I do.

25 Q And did you attempt to identify costs that

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1 industrial customers are paying for that they don't cause?

2 A I'm not aware of any situation where that is

3 occurring.

4 Q How about the call center?

5 Does the industrial customer base put costs on the

6 call center?

7 A Are you referring to the basic call center that

8 any customer can call?

9 Q Yes.

10 A Okay. My understanding is that that call center

11 is available to all of PacifiCorp's customers, including

12 customers that have a direct assigned corporate account

13 manager.

14 Q But isn't it your testimony that industrial

15 customers rely on their corporate executive, accounting

16 executive, for any of their calls as opposed to the call

17 center?

18 A That's not my testimony.

19 I think my testimony is more along the lines of a

20 normal residential customer cannot call the corporate

21 account manager. That service is not available to them.

22 However, going the other way, an industrial

23 consider can call the regular call center. Whether they

24 would or not, I don't know. I'm not aware of whether that

25 happens. But again, my understanding is that service is

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1 open to them.

2 Q How about bad debt, for example?

3 Have you done an analysis of whether industrial

4 customers are imposing costs on the system as a result of

5 bad debt?

6 A I have not.

7 Q But yet you are proposing in this particular case

8 that industrial customers pay for the account reps; is that

9 correct?

10 A That is correct.

11 Q And I guess I'm puzzled why you would single out

12 this one particular cost without looking at other costs that

13 industrial customers are paying that they may not be

14 causing.

15 A Well, I responded to this because it was an issue

16 raised in the previous rate case. It was a part of the

17 partial settlement that was reached, was that the Company

18 would analyze this issue with the corporate account managers

19 and whether they should be directly assigned.

20 So since it was an outstanding request from Staff

21 subject to partial settlement, I felt it was appropriate to

22 look at the Company's findings and consider the matter.

23 And I do believe that it was clear that it is a

24 service that is provided exclusively for large industrial

25 customers, and therefore should not be paid for by other

0635

1 customers.

2 Q But there are a variety of costs that you haven't

3 looked at that industrial customers subsidize residential

4 and commercial customers that they are currently paying for.

5 You didn't do a broad study; is that correct?

6 A I did not. That was not subject to the previous

7 settlement agreement.

8 Q You've testified to the notion of gradualism. I'm

9 sorry. It's late in the day. I'm not saying it very well.

10 Is that correct?

11 A That is correct.

12 Q And the rate spread proposal that you're making in

13 this case for industrial customers, does that comport with

14 that concept?

15 A I believe it does.

16 Q So 150 percent allocation is gradualism in your

17 view?

18 A In the context of the cost of service study, I

19 believe it is. There were two classes that were well below

20 their costs of service by not just -- it wasn't just the

21 Schedule 48T customers; it was also residential customers

22 that were well below.

23 And so given the cost of service study and Staff's

24 revenue requirement in this case, I saw it as an opportunity

25 to make strides in the direction of greater parity, moving

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1 classes closer toward their actual cost of service without

2 violating the principle of gradualism. Apparently I can't

3 say it either.

4 Q So are you aware that -- I'm not sure for how many

5 years running, but for a lot of years running that this

6 Commission has adopted spreading the rate increases on an

7 equal percentage basis?

8 A As I cited in my testimony in the last Puget Sound

9 general rate case, the Commission in the order actually

10 stated that it was appropriate to allocate the rate increase

11 at different rates to different customers, depending on the

12 cost of service.

13 Q I'm referring to PacifiCorp.

14 A My understanding is in the previous case there was

15 also an uneven allocation of the increase across classes.

16 MS. DAVISON: I have no further questions.

17 JUDGE MOSS: All right. Very well. So do we

18 have any redirect?

19 MR. OSHIE: We certainly do.

20 JUDGE MOSS: Oh, questions from the bench?

21

22 QUESTIONS FROM THE COMMISSIONERS

23 COMMISSIONER GOLTZ: On page 28 of your

24 testimony, the sentence starts on line 17 and goes through

25 the first part of line 20.

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1 And so I want to make sure we're comparing

2 apples to apples. The first part of the sentence reads, "The

3 average Washington residential customer of PacifiCorp uses

4 about 1300 hundred kilowatt hours per month on an annual

5 basis."

6 That makes it sound to me like it's the

7 average customers, the midpoint customers, the median. Half

8 use below 1300 and half use above.

9 The second part of the sense says, "Average

10 usage in winter climbs to 1700 kilowatt hours per month."

11 That sounds like you take the aggregate

12 kilowatt hours and divide by the number of customers and

13 come up with 1700. So that would be the mean.

14 And the first one sounds like the median.

15 So is it the median or the mean?

16 THE WITNESS: I apologize for being unclear.

17 Both of the these are the mean. The first

18 one is if you look at the entire year, then the mean usage

19 is 1300 kilowatt hours per month.

20 But if you only take winter, then it's 17.

21 COMMISSIONER GOLTZ: So do you happen to know

22 what the median usage is in the winter months?

23 In other words, it could be the same; it

24 could be half are above 1700 and half are below, but it

25 could be a quarter are above and three-quarters are below.

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1 Do you know what that is?

2 THE WITNESS: I do not know where the median

3 is.

4 COMMISSIONER GOLTZ: Is that information

5 accessible?

6 THE WITNESS: Yes, I'm sure it is.

7 COMMISSIONER GOLTZ: We would want to make a

8 bench request for that.

9 And the reason is it sort of depends -- I get

10 the concern of The Energy Project that 1700, if half the

11 customers are above that number, that's a lot of people in

12 the third block. And the more that are above that number,

13 the more low-income people are probably impacted. But if

14 it's 20 or 30 percent, then maybe it's not as many.

15 So if you can get that number, great.

16 (Bench Request No. 6 noted.)

17 JUDGE MOSS: Would you be able to provide

18 that based on the information you have available to you?

19 THE WITNESS: Let me try this. Let me see if

20 this meets your needs. And if not, I'll can see what I can

21 do.

22 So I looked at the Company's billing study

23 they provided as part of a data request. And what I did is

24 again, looking at that point of 1950 kilowatt hours per

25 month, the point where you would start to be adversely

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1 impacted, I looked at what percentage of customers exceed

2 that point on a monthly basis for the Schedule 16

3 residential customers and Schedule 17 low-income customers.

4 So I do have those numbers, how many people

5 are above that 1950 mark on a monthly basis and an annual

6 basis.

7 COMMISSIONER GOLTZ: So is that in an

8 exhibit?

9 THE WITNESS: That is not in an exhibit, no.

10 COMMISSIONER GOLTZ: So give us both.

11 THE WITNESS: As far as median goes, I would

12 have to defer to the Company.

13 JUDGE MOSS: The Company can provide that, I

14 assume?

15 COMMISSIONER GOLTZ: If you can, great.

16 JUDGE MOSS: I'm seeing affirmative nods from

17 the Company, Mr. Goltz.

18 THE WITNESS: I could ballpark it.

19 (Multiple voice cross-talk.)

20 COMMISSIONER GOLTZ: So I have one more

21 question. I wasn't going to ask this, but there's an

22 analogy I've been meaning to make and I haven't made it in

23 public. But this may be my last chance, so I'm going to run

24 it by you.

25 It came to mind when you said that you

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1 thought that perhaps -- I think you agreed with Ms. Steward,

2 that the some of the low-use customers may not be paying

3 their fair share of fixed costs. I think you said something

4 like that?

5 THE WITNESS: Correct.

6 COMMISSIONER GOLTZ: So here's my analogy:

7 Two couples walk into a restaurant. One couple orders

8 expensive wine, the lobster, dessert, appetizers,

9 everything. The other couple goes in and they get a grilled

10 cheese sandwich and a glass of iced tea at one-tenth the

11 cost.

12 They both use the same table for the same

13 amount of time, both use the napkins, both have a waitperson

14 that waits on them, both take a space in the parking lot.

15 Is the couple that orders a grilled cheese

16 sandwich and iced tea not paying their fair share of the

17 restaurant's fixed costs?

18 And if so, so what? What's the economic sin

19 in that?

20 THE WITNESS: Well, I think that the analogy

21 might be a little different with the utility because there

22 are fixed costs that are incurred specifically for that

23 customer. A utility had to buy a meter for that customer.

24 They had to provide a service drop to that customer. They

25 had to send someone out to read the meter.

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1 Whereas the restaurant, their fixed costs are

2 just "We put this restaurant in."

3 COMMISSIONER GOLTZ: But isn't the real

4 concern that our economic system worries about is that the

5 restaurant covers all of its costs in all of its

6 pricing? Isn't that the real concern?

7 The economic system in a competitive market

8 doesn't really care as much about whether that person is

9 paying more or less than he or she should; it's whether the

10 enterprise recovers its costs and gets a fair return on its

11 investment. It seems for me that would be the focus.

12 So the concern on the -- the thing we're

13 trying to protect here, and both you and everyone is trying

14 to protect, is making sure the utility recovers its costs

15 and earns a fair return on its investment.

16 And whether they recover their fixed costs

17 through a variable charge or fixed charge isn't really the

18 issue. The issue is that they recover them.

19 So that's why the questions were would

20 decoupling -- and I think you recognized this in your

21 testimony -- would decoupling address that just as well as a

22 fixed charge?

23 THE WITNESS: Okay. So I would agree that

24 you have to look at the big picture. Is the Company

25 recovering its costs, is it recovering its costs and making

0642

1 a fair rate of return.

2 And I think it's a general point of agreement

3 that it hasn't been earning that fair return. And Staff is

4 sensitive to that fact.

5 Staff does feel that there is a strong public

6 interest in the Company being able to meet its costs for

7 rating reasons, for debt reasons, and so we don't have to do

8 a rate case every year. This is my first one and I'm

9 exhausted. I don't know how you all do this.

10 So again, the Company has made the

11 representation, I think very, very clearly, that they have

12 not been recovering those costs.

13 And so Staff -- my goal, one of my goals as I

14 outlined in my testimony is to give the Company greater

15 certainty in the recovery of its costs. To my thinking, the

16 fastest and cleanest way to do that is increase the basic

17 charge.

18 So by my proposed increase of 525 a month per

19 customer, if you just times that out, 525 a month times 12

20 months times about 104,000 customers, that's about 6.6

21 million dollars instantly that the company will recover if

22 this basic charge is approved; recognizing that the third

23 block could potentially reduce that if people do respond to

24 this pricing I'm proposing and reduce their usage, that

25 could potentially counteract some of that, reduce the

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1 Company's recovery.

2 However, in my testimony I pointed out that

3 there is a small percentage of fixed costs within that third

4 block the way Staff designed it. And even if you take my

5 projected reduction of what the Company -- excuse me;

6 projected reduction in third block usage and assume that

7 every penny of that, the whole 12 cents of every one of

8 those kilowatt hours is foregone revenue for the Company,

9 that's only about $900,000.

10 So even if that worst-case scenario would

11 manifest, the Company still has about 5.6 million dollars

12 guaranteed recovery compared to what they have now. So that

13 was my in thinking going down that road.

14 COMMISSIONER GOLTZ: Thank you.

15 COMMISSIONER JONES: Mr. Twitchell, I think

16 we're all getting tired. Welcome to your first rate case.

17 You're doing a great job.

18 So turn to pages 33 and 34 of your testimony.

19 This is the third block issue again.

20 Did you hear my exchanges with Ms. Steward

21 earlier today?

22 THE WITNESS: I did.

23 COMMISSIONER JONES: Do you disagree with her

24 assertion -- I'm sure you've read her rebuttal testimony,

25 haven't you, JRS-13T?

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1 THE WITNESS: I have.

2 COMMISSIONER JONES: On page 39 of that she

3 makes a point. She seems to be concerned that what we were

4 just talking about, the fixed costs of the utility, are not

5 going to be recovered and there's uncertain recovery in the

6 third block because of pricing elasticity.

7 And she says -- she seems to be saying why

8 raise the first block rate from 600 to 800, because under

9 the Company's proposal it's the same amounts of revenue

10 recovery as under your proposal, which raises the first

11 block, as you know, to 800 kWh a month.

12 So do you agree with her on that, that at

13 least in the first block that the revenue recovery would be

14 equal, your proposal and the Company's proposal?

15 THE WITNESS: Well, the Company pointed out

16 that to do that you have to do an apple to apple comparison

17 since the blocks are different size.

18 COMMISSIONER JONES: Correct.

19 THE WITNESS: Strictly speaking, the

20 Company's would provide a little more cost recovery because

21 there is a higher basic charge there.

22 However, that proposal does not account for

23 the Staff's other stated goal of providing a price signal

24 for customers.

25 Multiple parties in this proceeding have

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1 argued that if you increase a basic charge, you're

2 essentially taking power away from the customers. You

3 reducing their ability to control their bill.

4 But by creating that third block, you're

5 essentially restoring that ability for them; that even

6 though they're paying more fixed charges, they still have a

7 meaningful way to control their usage and control their

8 bill, and enable a price signal to encourage them to do so.

9 COMMISSIONER JONES: And your assertion for

10 that is 12 cents per kilowatt is a meaningful price signal?

11 THE WITNESS: Correct.

12 COMMISSIONER JONES: And the elasticities

13 that you assert in your testimony will be realized?

14 THE WITNESS: Yes.

15 COMMISSIONER JONES: On that point, did you

16 hear my exchange -- I think it's her Exhibit JRS-21. I

17 don't know if you have it in front of you.

18 THE WITNESS: Yes.

19 COMMISSIONER JONES: The Company revised your

20 proposal to come up with megawatt hour savings. But

21 Ms. Steward indicated this morning she didn't know exactly

22 how you did your rate design.

23 So do you have any comments on that proposal,

24 that re-running of the impact on energy savings?

25 THE WITNESS: Yes, I do, as a matter of fact.

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1 The Company's representation in JRS-21 is

2 that if you look at the grand total columns, they're arguing

3 that their proposal would achieve greater efficiency than

4 Staff's proposal, would send a stronger price signal.

5 However, if you look at the details, the

6 Company's proposal assumes that usage -- users in that first

7 block, 800 kilowatts and below, are going to reduce their

8 usage in response to the price signal at the same rate as

9 other customers.

10 And my testimony was clear in stating that

11 the reason Staff set that block at 800 is that we believe,

12 or I believe, that usage there is inelastic; that these

13 customers in that range do not have the ability to respond

14 to a price signal. So I think this analysis that assumes

15 that they do is faulty.

16 And if you take that first block out, then

17 Staff's proposal does achieve greater savings than the

18 Company's proposed rate design.

19 I would also point out that Staff's proposal

20 shifts that signal entirely into the third block, the above

21 average users; whereas the Company distributes it throughout

22 the second and third blocks, trying to send a price signal

23 to average users; whereas Staff's position is that it's more

24 appropriate to send that to the higher users, to give them a

25 signal to move toward that average usage.

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1 COMMISSIONER JONES: So is that why you ran

2 the long-term price elasticity only on the third block and

3 not in the first and second block, is that you, in your

4 proposal, you really want to send a price signal --

5 THE WITNESS: Yes.

6 COMMISSIONER JONES: -- 12 cents a kilowatt

7 hour, expensive.

8 THE WITNESS: Yes.

9 COMMISSIONER JONES: You better start

10 conserving. Is that one of your rationales for setting it

11 up that way?

12 THE WITNESS: It is.

13 And the Company pointed out in rebuttal

14 testimony that since we are reducing the rates for the

15 average usage customer, they might increase their usage as a

16 result.

17 I think that is a fair argument. That could

18 happen. But I would point out that even if they increased

19 their usage along the same elasticities that we're assuming

20 for the high users, then the savings achieved in the third

21 block would still be about three times greater than the

22 increased usage in the second block. So the net savings are

23 still substantial, even if that happens.

24 COMMISSIONER JONES: And then I wanted to

25 reconfirm after my exchange with Ms. Steward this morning

0648

1 that -- on page 34, lines 7 through 8. So are you still

2 finding that in that third block, based on the pricing

3 elasticity and the price signal, that Staff felt only 0.4

4 percent of the Company's fixed costs assets are at risk in

5 that third block?

6 THE WITNESS: Correct.

7 COMMISSIONER JONES: You still stand by that

8 assertion.

9 THE WITNESS: I am.

10 COMMISSIONER JONES: Talking about

11 gradualism, we've had a lot of talk about gradualism today.

12 Did you consider a two-step increase in the

13 basic charge, let's say, or a three-step or two-step to $10

14 and then the $13?

15 And what impact would that have on the

16 volumetric rates?

17 As I understand it, that means you just

18 signed a 6.6 million increase in basic charge. You would

19 probably have to take that 6.6 million and increase the

20 volumetric rates even more if we were to do this, quote,

21 gradually?

22 THE WITNESS: Right. And early in the

23 process I did look at that, what would happen if we did

24 that. I don't remember the dollar impacts. As I said, I

25 was early in the process.

0649

1 The reason I ultimately decided against that

2 was because if we do -- again, talking about that pie

3 analogy, you know, increasing the basic charge does not

4 increase the side of the pie. It just changes the size of

5 the slices. So by increasing that charge all at once, we're

6 not increasing what most customers pay.

7 I should qualify that. There are some

8 customers who will pay more directly because of that basic

9 charge. But the vast majority of customers will see an

10 offsetting benefit through lower volumetric rates.

11 Essentially, all Staff's proposal does is

12 take some of those fixed costs that are recovered in

13 volumetric rates now and move these into the basic charge.

14 And then volumetric rates come down a little bit as a

15 result.

16 COMMISSIONER JONES: Thank you. That's all I

17 have.

18 CHAIRMAN DANNER: I think we've covered most

19 of it.

20 You talk about this as being -- your proposal

21 as being a proxy for decoupling, or the Company's proposal

22 being a proxy for decoupling.

23 Would your preference be to have a decoupling

24 proposal in place?

25 THE WITNESS: My preference would be to try

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1 and evaluate the impacts.

2 The Commission has approved decoupling for

3 two utilities. It's proven difficult to implement and

4 difficult to analyze.

5 Given some of the controversy that has been

6 associated with decoupling, Staff felt that there would be

7 value in looking at alternatives just to see what the impact

8 would be to see if -- I recognize that it's not going to

9 achieve everything decoupling does. But the tradeoffs of

10 efficiency and achievement may be worth it.

11 CHAIRMAN DANNER: So this is basically an

12 information gathering exercise? Is that Staff's position?

13 THE WITNESS: In part.

14 CHAIRMAN DANNER: Did you consider minimum

15 bills?

16 You heard Ms. Steward say that does nothing

17 for the Company. Did you analyze that?

18 THE WITNESS: I did not.

19 CHAIRMAN DANNER: You did not respond to

20 Walmart's proposals. Did you have any thoughts on that?

21 THE WITNESS: I do not.

22 CHAIRMAN DANNER: Okay. And then the last is

23 the impacts on distributed generation. You did have some

24 thoughts on that.

25 THE WITNESS: Yes, I did.

0651

1 CHAIRMAN DANNER: I was wondering if you

2 could expand on those. Do you see your proposal or the

3 Company's proposal as either discouraging or being neutral

4 on distributed generation deployment in our state?

5 THE WITNESS: Well, just to be clear, the

6 Company did not officially propose anything on this.

7 However, the language with which it was presented was that

8 this is what the Company expects to propose in a future rate

9 case.

10 Given that level of certainty and the

11 language that was in testimony, I felt it was appropriate to

12 look at it and respond to it.

13 And as I stated in my testimony, I don't

14 think that that approach is justified right now.

15 The Company's position seems to be that

16 distributed generation customers are imposing costs on the

17 Company's system and that there are cost shifts occurring

18 already.

19 Staff's position is that even with the uptick

20 that occurred in the last nine months, as the Company

21 pointed out in rebuttal testimony, there are still only 227

22 DG customers in Pacific Power's Washington territory, which

23 is about 0.2 percent of their customer base. And on a

24 capacity basis it's probably --

25 CHAIRMAN DANNER: I thought it was 141, isn't

0652

1 it?

2 THE WITNESS: That was as of December 31,

3 2013.

4 As of October 31 this year, it's 227.

5 So Staff's position is that at 0.2 percent of

6 the customers, there are just not enough customers to be

7 materially impacting the Company's system in any way to be

8 creating any kind of cost shift.

9 And as I pointed out in Exhibit 2 of my

10 testimony, during the company's top 200 load hours, the

11 majority of those hours, 62 percent of those hours occurred

12 when the sun was out.

13 So Staff's position is that -- the Company's

14 position seems to be -- I understood the Company's position

15 to be that these customers are imposing costs on the

16 Company's system.

17 Staff's position, based on the data we looked

18 at, is during heavy load hours these customers are actually

19 producing energy that offsets the energy that PacifiCorp

20 needs to provide for its customers. And any production that

21 takes place during heavy load hours, even if it's just a

22 fraction of the capacity, even if it's just a few hundred

23 watts, has a benefit to PacifiCorp, to its investors, to

24 ratepayers.

25 So to install -- put a rate in that would

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1 provide a demand charge to send a DG customer to reduce

2 their usage during a peak event doesn't really follow the

3 data that we saw. These customers are providing benefits to

4 the Company in peak hour. And any rate treatment that the

5 Company proposes should account for the cost of benefits.

6 And it seems like all they're looking at now are potential

7 costs.

8 CHAIRMAN DANNER: So would you disagree that

9 there could be potential problems as there's more

10 penetration of DG in the system?

11 THE WITNESS: Eventually?

12 CHAIRMAN DANNER: Yes. I mean, we're at a

13 very low level right now. You know, sometimes thing happen

14 quickly. Cell phones, you don't have to worry about cell

15 phones, when we were doing telecom issues.

16 You know, at some point are we going to have

17 to look at this issue?

18 THE WITNESS: I think that is a logical

19 argument.

20 But ultimately, any rate treatment that the

21 Company proposes or the Commission approves should be based

22 on known and measurable costs and impacts to the Company's

23 system. And Staff's position is that right now the company

24 just can't demonstrate that, has not demonstrated that.

25 And I recognize that the Company did indicate

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1 that they are proposing a load study to try to get at some

2 of those benefits. But Staff's position was that the data

3 that we do have now contradicts this potential proposal that

4 you're considering. So absent some kind of contradictory

5 data that comes out of that load study, Staff doesn't see

6 any reason to go down this road right now.

7 CHAIRMAN DANNER: All right. Thank you.

8 JUDGE MOSS: Mr. Oshie, redirect?

9 MR. OSHIE: I have a few questions, your

10 Honor. Just take a little break to let the court reporter

11 rest her fingers.

12 JUDGE MOSS: We will be wrapping up after

13 this.

14 MR. LOWNEY: Your Honor, perhaps before

15 Mr. Oshie begins, I have a few followup questions based on

16 the discussion with Commissioner Jones regarding JRS-21.

17 JUDGE MOSS: Go ahead. So Mr. Oshie can

18 cover that topic as well if he needs to.

19 RE-CROSS EXAMINATION

20 BY MR. LOWNEY:

21 Q If you could refer back to JRS-21, I want to

22 clarify some of the calculations in that exhibit.

23 So if you look at the expected savings for the

24 rate block greater than 2,000 kWh per month, and if you look

25 under the Staff's proposal, the very bottom line, your

0655

1 results indicate that you would expect to save 7,660 kWh in

2 that block, correct?

3 A Correct.

4 Q And then carrying forward, if you look at the

5 Company's proposal for that same -- and this is long run; I

6 should clarify -- the Company's proposal was 18,285 kWh per

7 month, correct?

8 A Yes, but that reflects the Company's higher

9 revenue requirement.

10 Q That's correct. But that's a higher revenue

11 requirement you don't support; is that correct?

12 A Correct.

13 Q So comparing your proposed revenue requirement and

14 rate design to the Company's proposed revenue requirement

15 and rate design, you would agree that for greater than 2,000

16 kWh, the Company's proposal results in greater reductions in

17 customer usage, correct?

18 A I would not agree with that, because if you look

19 at that third block where it says "Staff Proposal" revised

20 with Company revenue requirement, the amount of savings

21 achieved in the third block using Staff's proposed rate

22 design are more than double what the Company projected.

23 Q That wasn't my question.

24 My question was Staff's proposed revenue

25 requirement in Staff's proposed rate design would result in

0656

1 less customer savings than the Company's proposed revenue

2 requirement in the Company's proposed rate design, correct?

3 A Yes, but that's an apples to oranges comparison.

4 MR. LOWNEY: Thank you.

5 JUDGE MOSS: Thank you. Mr. Oshie?

6 MR. OSHIE: Thank you, your Honor.

7 RE-DIRECT EXAMINATION

8 BY MR. OSHIE:

9 Q Mr. Twitchell, Mr. Lowney was asking about your

10 use, apparently, of a Company usage study.

11 Are you familiar with that? Do you remember the

12 question?

13 A Yes.

14 Q So I guess my question, I've got a couple of them

15 along that.

16 Was the usage study that he was referring to, was

17 that included or discussed by the Company in their rate

18 design?

19 A In passing. But it was not used as an input

20 because their proposal -- their testimony was filed before

21 that study was concluded.

22 Q Did the Company update any of its proposals

23 following the submission of the usage study in July?

24 A Not that I can recall.

25 Q Thank you.

0657

1 One last question. Were you in the hearing room

2 when Commissioner Goltz was asking Mr. Dalley about his

3 comment and his testimony about the Company not recovering

4 its costs?

5 A Yes, I was.

6 Q And so in your testimony tonight -- it sure looks

7 like tonight because of the darkness -- you're talking about

8 the recovery of the Company's fixed cost, not its total

9 revenue requirement?

10 A It's both. It's giving the Company greater

11 certainty of fixed cost recovery, which in turn improves

12 overall cost recovery.

13 Q So when you were talking about the Company, your

14 rate that the Company is not recovering its costs, are you

15 including the Company's earnings from the -- or just its

16 costs?

17 A I am including the Commission authorized rate of

18 return in that.

19 MR. OSHIE: Okay. Thank you. No further

20 questions.

21 JUDGE MOSS. All right. Thank you.

22 Well, we have made it through your testimony,

23 Mr. Twitchell.

24 Is there another question? Did you have some

25 cross?

0658

1 MR. WIEDMAN: No.

2 JUDGE MOSS: All right. Well, I was thanking

3 Mr. Twitchell for his testimony. You may step down.

4 I'll go ahead and hear from you before I go

5 on with my closing remarks for the day.

6 MR. WIEDMAN: Yes, your Honor. We had

7 discussed earlier in the proceeding having a date certain

8 for Mr. Fulmer's testimony today.

9 And I wasn't sure if any of the commissioners

10 have questions for Mr. Fulmer. But my flight is early

11 tomorrow. I'm happy to rebook to be here if there are

12 extensive questions, but if there are not, I would beg

13 everyone's indulgence if we could do it today.

14 JUDGE MOSS: It really would be questions

15 from the bench, so I just need to hear from you.

16 CHAIRMAN DANNER: No questions.

17 COMMISSIONER JONES: No questions.

18 COMMISSIONER GOLTZ: Well, I'm just looking

19 for his testimony. My recollection is that he testified

20 about the minimum charge.

21 MR. WIEDMAN: Minimum charge --

22 COMMISSIONER GOLTZ: -- minimum bill. And my

23 only question for him was going to be to respond to

24 Ms. Steward's question that this minimum bill does nothing

25 for the Company, get a response to that.

0659

1 MR. WIEDMAN: He is on the phone.

2 COMMISSIONER GOLTZ: Can we do that in a

3 flash?

4 JUDGE MOSS: Sure. Let's do it.

5

6 MARK E. FULMER, witness herein, having been first duly

7 sworn on oath, was examined and

8 testified as follows:

9

10 DIRECT EXAMINATION

11 BY MR. WIEDMAN:

12 Q Good afternoon, Mr. Fulmer. This is Joe Wiedman.

13 If you could state and spell your last name for

14 the record, please?

15 A My name is Mark Fulmer; last name F-U-L-M-E-R.

16 Q And do you have any corrections to your testimony

17 beyond which you've already submitted to the Commission

18 today?

19 A No, I do not.

20 MR. WIEDMAN: The witness is available for

21 questions from the bench, your Honor.

22 JUDGE MOSS: All right. Mr. Goltz?

23

24 QUESTIONS FROM THE COMMISSIONERS

25 COMMISSIONER GOLTZ: Yes, thank you for being

0660

1 patient.

2 My only question for you, you've heard some

3 questions from the bench today of various witnesses about

4 the minimum bill as opposed to a fixed -- an increase in the

5 fixed charge. And you mentioned that as a possibility.

6 And you may have heard Ms. Steward, when I

7 asked her about that earlier, saying the Company gets

8 nothing out of that. I don't want to put words in her

9 mouth, but something to that effect.

10 I wonder if you have any response about the

11 benefits of a minimum bill for the Company and then also for

12 the ratepayers.

13 THE WITNESS: Sure. A minimum bill provides

14 some amount of fixed cost coverage to the utility from very

15 low-use users. Those can either be in some cases vacation

16 homes, or in other cases due to distributed generation. So

17 if they have solar on their roof, they're guaranteed a

18 certain amount of income from those customers while not

19 necessarily -- well, not necessarily -- not impacting other

20 customers that have more conventional usage patterns.

21 COMMISSIONER GOLTZ: So that isn't what

22 you're advocating in this case, but you advocate that as

23 sort of a fallback position; is that true?

24 THE WITNESS: I advocate that as a potential

25 tool in your tool box in trying to balance cost recovery

0661

1 from the utility and reasonable and fair pricing to the

2 customers.

3 COMMISSIONER GOLTZ: And you don't have to

4 answer this, but some restaurants have minimum bills as

5 opposed to fixed charges; isn't that correct?

6 Strike that.

7 THE WITNESS: Okay.

8 COMMISSIONER GOLTZ: I have no further

9 questions.

10 JUDGE MOSS: All right. Well, if we're

11 finished with Mr. Fulmer then?

12 MR. WIEDMAN: Yes.

13 JUDGE MOSS: Thank you, Mr. Fulmer. We

14 appreciate you being on the phone and giving your testimony.

15 And despite all of your best efforts to the

16 contrary and my fearless predictions, we are not going to

17 finish today after all. We have two witnesses left for whom

18 cross-examination is indicated, that being Mr. Watkins and

19 Mr. Mullins. And so we will have to resume tomorrow

20 morning. And I would propose 9:30.

21 COMMISSIONER JONES: Ms. Ramas too.

22 JUDGE MOSS: Ms. Ramas, sorry. So we have

23 three more witnesses, then, for whom questions are

24 indicated.

25 So with that, I'll wish you all a good

0662

1 evening.

2 MR. PURDY: Your Honor, I have an inquiry

3 more an a request. I have just Mr. Eberdt, for whom no

4 cross is indicated. Otherwise, I'm done.

5 Would you like me here? I have no problem

6 being here in the morning for Mr. Eberdt.

7 JUDGE MOSS: Mr. Purdy, it's always a

8 pleasure to have your company. But if you want to go back

9 to Boise, that will be just fine.

10 MR. PURDY: Thank you.

11 (Multiple voice cross-talk.)

12 JUDGE MOSS: We will start at 9:00,

13 then, and hopefully we'll be finished well before the noon

14 hour. Chairman Danner says he's fine with 9:30. 9:30,

15 then.

16 (Whereupon, the proceedings were

17 adjourned at 5:05 p.m. )

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