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BEFORE THE WASHINGTON STATE

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)
Complainant,) Docket Nos. UE-140762
v.) and UE-140617
PACIFIC POWER & LIGHT COMPANY,) (Consolidated)
Respondent.)

HEARING - VOLUME V

Pages 373-663

ADMINISTRATIVE LAW JUDGE DENNIS J. MOSS
COMMISSION CHAIRMAN DAVID DANNER
COMMISSIONER JEFFREY GOLTZ
COMMISSIONER PHILIP JONES

9:00 A.M.

DECEMBER 17, 2014

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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

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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

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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

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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

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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

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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.

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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?

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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?

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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?

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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 --

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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

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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

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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

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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

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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

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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

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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 beat a dead horse, but I am going to ask a few questions
25 about PCAM and why you didn't file one.

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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?

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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. Does
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

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

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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

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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

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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?

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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

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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?

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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?

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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?

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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

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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

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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

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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

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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

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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?

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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

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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

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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?

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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

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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

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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?

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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.

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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

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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

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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.

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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.

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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?

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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

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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

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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.

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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

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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

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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?

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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

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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. ffitich?

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. ffitich) 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.

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?

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 prudence
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 prudence, right?

6 THE WITNESS: That is correct.

7 COMMISSIONER JONES: Are there any other
8 rate-based additions in this case that require a prudence
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

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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

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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

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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

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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

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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

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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

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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.

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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

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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?

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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?

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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

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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

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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

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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.

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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

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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

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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

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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

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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

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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.

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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

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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. LONEY: 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

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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?

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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

0623

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.

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

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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 customer 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

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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

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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

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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.

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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.

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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

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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 things 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

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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

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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.

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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?

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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.

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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

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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

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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

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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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