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1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION
3 Petition of PacifiCorp d/b/a)
4 Pacific Power & Light Company) Docket No. UE-020417
5 for an Accounting Order)
6 Authorizing Deferral of) Volume III
7 Excess Net Power Costs,) Pages 109 to 282
8 _____)

9 A hearing in the above matter was held on
10 March 20, 2003, from 9:35 a.m. to 5:00 p.m., at 1300
11 South Evergreen Park Drive Southwest, Room 206, Olympia,
12 Washington, before Administrative Law Judge DENNIS MOSS
13 and Chairwoman MARILYN SHOWALTER and Commissioner
14 RICHARD HEMSTAD and Commissioner PATRICK J. OSHIE.

15 The parties were present as follows:
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32

33

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1 P R O C E E D I N G S

2 JUDGE MOSS: Good morning, everyone. We are
3 convened in Docket Number UE-020417, styled Petition of
4 PacifiCorp doing business as Pacific Power and Light
5 Company for an Accounting Order Authorizing Deferral of
6 Excess Net Power Costs. Now we're convened today for
7 the purposes of our evidentiary hearing, having
8 previously met on the 17th to exchange cross-examination
9 exhibits and otherwise prepare ourselves for today's
10 activities.

11 Since Mr. Larsen is eagerly waiting his
12 presentation, I'm going to jump ahead of a couple of
13 preliminary matters and swear him in and let him sit
14 down, and then I will go back to a few preliminary
15 matters.

16

17 Whereupon,

18 JEFFREY K. LARSEN,
19 having been first duly sworn, was called as a witness
20 herein and was examined and testified as follows:

21

22 JUDGE MOSS: Thank you, please be seated.

23 Now in the way of preliminary matters, we had
24 some brief discussion off the record this morning
25 concerning the exhibits. We all have copies of the

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1 exhibit list. As to the direct exhibits, we didn't
2 really discuss these, but the tenor of the discussion
3 with respect to the cross exhibits was such that I'm
4 anticipating we're not going to have objections to
5 Exhibits 1C through 9, which are the direct exhibits for
6 this witness, or am I mistaken in my assumption?

7 Okay, there will be no objection to those,
8 Mr. Van Nostrand, so I'm going to just cut things short
9 here and not force you to move them. I will just accept
10 them into the record as stipulated into the record for
11 Mr. Larsen.

12 MR. VAN NOSTRAND: Thank you, Your Honor.

13 JUDGE MOSS: Now as to the cross-examination
14 exhibits for the Industrial Customers Northwest
15 Utilities will be the first party to cross-examine
16 Mr. Larsen, and those are proposed cross-examination
17 Exhibit Numbers 10 through 27 and also number 63 that
18 had previously been identified in connection with
19 another witness but will instead be sponsored through
20 this witness. With the exception of Number 26 and with
21 the emendation that Exhibit 17 has been supplemented to
22 complete it by the addition of a dissent that apparently
23 was published after the primary decision in this Wyoming
24 case, with that emendation and the exception of Number
25 26, the parties have agreed that Exhibits 10 through 27

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1 and 63 may be admitted without objection, and that will
2 be done.

3 Now I would like to just go ahead now and
4 let's find out what the dispute is on Exhibit 26, and
5 perhaps we can resolve that and move along with the
6 examination of our witness. It's Mr. Van Nostrand's
7 objection, I believe.

8 MR. VAN NOSTRAND: Your Honor, Ms. Davison
9 and I had some discussion after our cross-examination
10 exhibits were distributed on Monday, and I pointed out
11 to her that this exhibit should properly be introduced
12 through company witness Griffith, and I believe that
13 she's agreeable to that, but we will need to confirm
14 that.

15 JUDGE MOSS: Oh, well, if that's the only
16 dispute, 26?

17 MS. DAVISON: Your Honor, two quick things.
18 One is that I wanted to also add Exhibit 44 to the list,
19 and the concern I have, I am agreeable to ask my
20 questions of Mr. Griffith with the caveat that since
21 Mr. Griffith is the last company witness, I would hate
22 to be in a position where I'm asking questions about the
23 exhibit and he doesn't have the requisite knowledge to
24 answer the question, that it may require Mr. Larsen to
25 come back. But with that caveat, I'm okay with that.

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1 JUDGE MOSS: Well, we count on the informal
2 discussions of counsel to clear these things up, but a
3 witness is always subject to recall in that sort of
4 circumstance. So I imagine things will work out fine,
5 but if they should not, then we can certainly consider
6 recalling Mr. Larsen if necessary.

7 MS. DAVISON: Thank you.

8 JUDGE MOSS: All right, so we want to remove
9 26 to Mr. Griffith for the time being, so we will admit
10 1 through 9, 10 through 25, 27, and 63. And as to 44,
11 you can refer to it even if it wasn't an exhibit since
12 it's part of our public records, but I assume, Mr. Van
13 Nostrand, there's no objection to 44?

14 MR. VAN NOSTRAND: No, Your Honor.

15 JUDGE MOSS: We'll go ahead and admit 44 at
16 this time as well. That's a transcript of the
17 proceedings, some of the proceedings in Docket Number
18 UE-991832 as memory serves.

19 MR. CEDARBAUM: Your Honor, Exhibit 63 was
20 the other one.

21 JUDGE MOSS: Yes, 63 was the other. Oh, I
22 see, okay. I need to make one more change then for the
23 clarity of the record. I neglected to note that Exhibit
24 Number 44 is, in fact, a duplicate of what was tendered
25 and marked for identification as Number 23. So since we

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1 are admitting 44 at this time, which is the complete
2 transcript in reduced page format, we will not be
3 admitting Exhibit 23. There will be no Exhibit 23. It
4 will be an unused number. So I think we've got all that
5 clear. I'm not sure it saved time, but with that,
6 Mr. Van Nostrand, do you wish to put your witness on?

7 MR. VAN NOSTRAND: Yes, Your Honor.

8 JUDGE MOSS: Or are there other preliminary
9 matters?

10 MR. VAN NOSTRAND: Not that I'm aware of,
11 Your Honor.

12 JUDGE MOSS: All right, go ahead.

13 MR. VAN NOSTRAND: The company calls Jeffrey
14 K. Larsen.

15 JUDGE MOSS: And he has been sworn.

16 MR. VAN NOSTRAND: And, Your Honor, the
17 admission of Exhibits 1 through 9 I assume does not
18 obviate my establishing that the exhibits are true and
19 correct and the drill regarding --

20 JUDGE MOSS: I think that probably for a
21 complete record it would be important that you verify
22 that he is indeed the author or responsible for these
23 exhibits.

24 MR. VAN NOSTRAND: I wanted to clarify that,
25 thank you, Your Honor.

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D I R E C T E X A M I N A T I O N

3

BY MR. VAN NOSTRAND:

4

Q. Mr. Larsen, could you state your name and
5 spell it for the record, please.

6

A. Jeffrey K. Larsen, J-E-F-F-R-E-Y, K,
7 L-A-R-S-E-N.

8

Q. And what is your position with the company?

9

A. Currently the Vice President of Compliance at
10 PacifiCorp.

11

Q. And do you have before you what's been marked
12 as or has been admitted as Exhibits 1C and 8? That
13 would be your direct and rebuttal testimony in this
14 case.

15

A. Yes, I have those.

16

Q. Do you have any additions or corrections to
17 make to those exhibits at this time?

18

A. No.

19

Q. If I asked you the questions set forth
20 therein, would your answers be the same today?

21

A. Yes, they would.

22

Q. Do you also have before you what's been
23 marked and admitted Exhibits 2 through 7 and 9? Those
24 are the exhibits that accompany your direct and rebuttal
25 testimony.

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1 A. Yes.

2 Q. Do you have any additions or corrections to
3 make to those exhibits?

4 A. No, I don't.

5 Q. And were they prepared under your direction
6 or supervision?

7 A. Yes, they were.

8 Q. And are they true and correct to the best of
9 your knowledge?

10 A. Yes.

11 MR. VAN NOSTRAND: Your Honor, Mr. Larsen is
12 available for cross-examination.

13 JUDGE MOSS: All right.

14 I'm going to make one more comment, and that
15 is with respect to Exhibit 1C, Mr. Larsen's pre-filed
16 direct testimony. I want to note for the benefit of any
17 who were not present on the 17th that the company did
18 tender a revised version of this exhibit to correct a
19 pagination error in the original version. Now some of
20 you will have made marginal notes and may ask questions
21 with reference to the original version. We'll keep the
22 record straight on that. I have both copies, and so you
23 need not be concerned except to the extent that you may
24 need to identify by stating the question or so forth so
25 that we have everyone on the same page. Maybe it won't

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1 come up, but if it does, I will deal with it.

2 So our witness is ready for
3 cross-examination, and, Ms. Davison, I believe we will
4 begin with you.

5 MS. DAVISON: Thank you.

6

7 C R O S S - E X A M I N A T I O N

8 BY MS. DAVISON:

9 Q. Good morning, Mr. Larsen.

10 A. Good morning.

11 Q. Could you explain for us what your
12 understanding of the general circumstances under which a
13 utility can seek deferred accounting in Washington?

14 A. Yes. Under circumstances where the company
15 in between rate cases is seeking to defer costs for
16 which it's incurred and for which it is seeking relief
17 in the form of a deferral until either the next case or
18 through a mechanism for recovery.

19 Q. So is it your view that in Washington you can
20 defer any costs in between rate cases?

21 A. Well, you can't defer without Commission
22 approval and without going through the proper procedures
23 and hearings with the Commission.

24 Q. Assuming that caveat.

25 A. Assuming that you make the proper application

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1 and that there's a full hearing and you receive approval
2 from the Commission, yes.

3 Q. So it's not your understanding that deferred
4 accounting is limited to exceptional unforeseen costs in
5 between rate cases?

6 A. Well, I think that's what occurs in between
7 cases. If you have something exceptional, if you have a
8 change in accounting policies, tax laws, things that are
9 unusual, those would be the basis for filing for a
10 deferral.

11 Q. Did the rate plan limit the company's ability
12 to seek deferred accounting?

13 A. Referring to my Exhibit JKL-1, which is
14 Exhibit Number 2, page 7 of the stipulation, the top
15 reads:

16 This Section 9 does not preclude the
17 company from submitting petitions for
18 accounting orders as appropriate for
19 treatment of revenues, investments, or
20 expenses during the rate plan period.

21 Q. Is it your understanding that that language
22 limits the circumstances in which the company can seek
23 deferred accounting during the term of the rate plan?

24 A. I think it provides the company with an
25 opportunity that if there are unusual circumstances, it

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1 could certainly file for deferred accounting to deal
2 with those.

3 Q. I understand that, but my question is more
4 specific. Is it your view that this language in
5 Paragraph 9 was intended to limit the circumstances
6 under which the company could seek deferred accounting?

7 A. I'm not sure what you mean by limit; can you
8 clarify your question?

9 Q. Sure. As compared to the circumstances that
10 would exist absent a rate plan. In other words, if you
11 go back to your first answer, which as I understand, if
12 I understand it, was that in Washington it's your view
13 that the company could come in and seek deferred
14 accounting for virtually any costs in between rate
15 cases. And my question to you is that given that
16 answer, is it your view that Section 9 of the rate plan
17 was intended to in any way limit the circumstances in
18 which the company could come in and seek deferred
19 accounting treatment during the term of the rate plan?

20 A. First of all, let me clarify. You said that
21 your understanding was that we could come in for any and
22 all costs, and I think it is unusual circumstances,
23 things that are triggered in between rate cases that
24 would cause that. So it's not normal ongoing operating
25 costs or normal events that we would be coming in

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1 seeking accounting or an accounting order on deferral
2 for. So what we're dealing here with is if there's
3 unusual circumstances or events that would in the
4 company's opinion require a special treatment, we would
5 be filing under Section 9 for an accounting deferral.

6 Q. Does Section 9 in any way limit your ability
7 to file for deferred accounting?

8 A. Well, Section 9 clearly lists the moratorium
9 on the general rate increase. It doesn't preclude the
10 company from requesting or proving changes for the
11 following reasons, lists those out, items A through F.
12 And then it also says that the company is not precluded
13 from submitting petitions for accounting orders, so I
14 think the company can file for those, and we would come
15 to hearing to discuss the merits of that filing.

16 Q. I'm not sure how to rephrase this,
17 Mr. Larsen. Could you just answer yes or no. In your
18 opinion, does Paragraph 9 in any way limit the company's
19 ability to seek deferred accounting during the term of
20 the rate plan?

21 A. No, I don't believe it does under the right
22 circumstances.

23 Q. Do you believe that your request in this case
24 is consistent with the rate plan, or is the company
25 asking the Commission to amend the rate plan?

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1 A. I think our request is fully consistent with
2 the rate plan.

3 Q. So it is your opinion that the Commission
4 could grant the relief that you are asking for without
5 amending the rate plan in any way?

6 A. Yes, I believe that's correct.

7 Q. And can you point to the provision in the
8 rate plan that allows the company to amortize or recover
9 dollars out of the deferred account during the pendency
10 of the rate plan?

11 A. The rate plan precludes the company from
12 changing base rates, and we are not proposing that we
13 reopen and change our base rates and tariffs. What we
14 have proposed is that we are doing a deferral mechanism
15 and using our credits for Centralia and our merger
16 credit to use that as the recovery mechanism to recover
17 the costs in the deferral. So I don't believe that we
18 have violated the rate plan. We're living within the
19 spirit of it, and we're trying to stay true to the
20 company's commitment for the rate plan period that we
21 would remain -- we would leave the rates that were in
22 effect and that were established as part of the rate
23 plan in effect through 2005. Clearly if that is not the
24 appropriate mechanism or the Commission finds that a
25 rate case is appropriate and for the limited purpose of

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1 having a general rate case and reviewing all of the
2 rates, then the company would be amenable to that and
3 would file a case this year.

4 Q. Mr. Larsen, you indicated that you, if I'm
5 understanding your answer, I believe you're referring to
6 Paragraph 2 that discusses rate changes, which
7 specifically limits the circumstances in which the
8 company can change its base rates; is that correct?

9 A. Yes.

10 Q. And if I understand your answer correctly,
11 you're saying that since you're not seeking to change
12 base rates, your proposal is consistent with the rate
13 plan; is that correct?

14 A. Yes.

15 Q. And then you gave an example of using the
16 Centralia credit to apply against the deferred account
17 balance, and you believe that's consistent with the rate
18 plan, correct?

19 A. Yes.

20 Q. Can you explain how that is then consistent
21 with Paragraph 4 of the rate plan that provides that the
22 credit shall be refunded to customers?

23 A. I think it is wholly consistent with it. We
24 have refunded it to customers. What we're doing is
25 using that refund to offset additional costs that the

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1 company has incurred and which it has borne to a huge
2 extent, and so customers have that benefit, but they're
3 using that money to also pay for the power costs and the
4 extraordinary costs that we have incurred without having
5 to change their base rates.

6 Q. But, Mr. Larsen, does Paragraph 4 provide any
7 language whatsoever that gives the company flexibility
8 to not refund the Centralia credit to customers?

9 A. I would agree with that characterization, but
10 it also doesn't preclude using the credit as a mechanism
11 to offset other costs that are incurred, particularly
12 through a deferral.

13 Q. But I guess I don't understand that answer
14 given that Paragraph 4 states very specifically that:

15 The company will return to customers as
16 a separate credit the gain from the sale
17 of the company's share of the Centralia
18 plant. Such credit shall be paid during
19 the five year period until it has been
20 fully returned to customers.

21 I'm not sure how that gives the company the
22 flexibility to apply that credit against power costs.

23 MR. VAN NOSTRAND: Your Honor, objection, is
24 there a question there, or are we testifying?

25 JUDGE MOSS: I think that's the narrative

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1 form of the question asking for Mr. Larsen's explanation
2 of that. I think Mr. Larsen understands.

3 A. First of all, the company isn't asking for
4 that flexibility. We have put that forward as an option
5 to the Commission to use as a flexible mechanism for
6 cost recovery for the company. The combination of the
7 Centralia balance as well as the merger credit would
8 roughly equal the amount that we have asked for in a
9 deferral. If that mechanism isn't appropriate, if
10 Centralia is not to be included and we do use the merger
11 credit, the remaining balance would then need to be
12 recovered through some type of a surcharge, as mentioned
13 in my direct testimony. So what we have tried to do is
14 provide flexible mechanisms, ways for the Commission to
15 find solutions to help the company in its financial
16 situation.

17 BY MS. DAVISON:

18 Q. Mr. Larsen, I will go back to one of my
19 original questions of you. Given the language of
20 Paragraph 4, if the Commission were inclined to accept
21 the company's proposal with respect to the treatment of
22 Centralia gain, wouldn't the Commission, in fact, have
23 to issue an order amending the rate plan in order for
24 the Commission to not fully refund the Centralia credit
25 to customers?

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1 MR. VAN NOSTRAND: Objection, Your Honor, I
2 believe this calls for a legal conclusion. The document
3 speaks for itself, and the Commission can interpret it
4 in the manner it chooses.

5 JUDGE MOSS: Sustained.

6 BY MS. DAVISON:

7 Q. Let me try it a different way. This witness
8 has given lots of opinions about what he believes the
9 Commission can do under the rate plan, and let's turn to
10 page 22 of your direct testimony, Mr. Larsen. If you
11 look at lines 14 and 15, you state:

12 Without formally "reopening" the rate
13 plan, the company proposes to obtain
14 limited relief that will enable it to
15 fulfill the essential terms of the rate
16 plan.

17 Can you explain what you mean by without
18 formally reopening the rate plan?

19 JUDGE MOSS: And just let me interject, and
20 I'm sorry to get between the question and the answer
21 here. You apparently are working off of the original
22 version of this exhibit.

23 MS. DAVISON: I'm sorry.

24 JUDGE MOSS: And my understanding was that
25 you were going to work off of the revised. I'm

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1 indifferent, but it will require that we keep the record
2 straight, because what we have admitted is the revised,
3 so the testimony you're referring to is on page 23
4 beginning at line 2 of the revised version.

5 Do you still have the question in mind,
6 Mr. Larsen?

7 THE WITNESS: Yes, I do.

8 JUDGE MOSS: Okay, you can go ahead and
9 answer it.

10 A. What I mean by without formally reopening it,
11 reopening it for the purposes of a review of all of the
12 company's rates, having a general rate case, and
13 reestablishing base rates.

14 MS. DAVISON: Can you read that question,
15 that answer back, please.

16 (Record read as requested.)

17 BY MS. DAVISON:

18 Q. So if I understand your answer, the
19 Commission may actually have to reopen the rate plan if,
20 in fact, the Commission decides to take away customers'
21 Centralia credit; is that correct?

22 A. No, I don't believe that's what I said.

23 Q. Well, let me pose it as a question. If the
24 Commission accepts the company's proposal and takes away
25 the customers' Centralia credit, given your language on

0132

1 page 23, would the Commission have to formally reopen
2 the rate plan?

3 A. No. As the way I consider it, the Commission
4 is not taking away the merger credit or the Centralia
5 credit from customers. It's fully recognized, the
6 balance is identifiable, and that's attributable to
7 customers. What we are identifying is the fact that the
8 company is asking for a deferral of costs which we would
9 want to seek recovery from customers. And using those
10 two balances, money owed to customers by the company,
11 and if the accounting order is accepted and a recovery
12 mechanism approved, using the balance of the Centralia
13 credit and the merger credit, money owed to the company
14 by customers to offset each other, so I don't believe we
15 are taking the merger credit or the Centralia credit
16 away from customers or denying them that. We're just
17 using the moneys from each as an offsetting mechanism.

18 Q. Isn't it correct that Mr. Griffith testifies
19 on page 3, lines 1 and 2, that the effect of taking away
20 the Centralia credit and the merger credit is to
21 increase customers' rates by on average 4.6%?

22 A. I would need to see a copy of that testimony
23 to verify it.

24 JUDGE MOSS: Why don't you give us an exhibit
25 number, Ms. Davison.

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1 Griffith is 90, his pre-filed direct?

2 MS. DAVISON: That's correct, Your Honor,
3 Exhibit 90.

4 JUDGE MOSS: All right, can the witness be
5 provided with a copy of Exhibit 90, please.

6 We're looking at page 3 as I recall.

7 MS. DAVISON: Yes, page 3, lines 1 through 2.

8 A. Can you repeat the question or have it read
9 back so I can --

10 BY MS. DAVISON:

11 Q. Sure. My question, Mr. Larsen, is, isn't it
12 correct that Mr. Griffith has testified that the impact
13 or the effect of taking away the customers' merger
14 credits and Centralia credits will be to increase on
15 average customers' rates by 4.6%?

16 A. No, that's not what it says. Reading on line
17 1 of page 3:

18 The effect of removing these two credits
19 will increase customers' bills by an
20 average of 4.6%.

21 It's not changing rates. It is the effect
22 that we have base rates established, and there is also
23 credits being passed through to customers. When you net
24 those credits with what the company is seeking in terms
25 of the deferral, it would net out, and what they see on

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1 their bill would increase.

2 Q. All right. I'm not sure the average customer
3 sees it quite that way, but I will accept that.

4 Is the company asking for interim rate
5 relief?

6 A. Yes, we are asking for relief in this case
7 originally filed for approximately \$17 1/2 Million of
8 relief.

9 Q. Are you asking for interim rate relief as
10 that term is used in Section 11 of the rate plan
11 stipulation, 11.A to be precise, of Exhibit 2?

12 A. Yes.

13 Q. Mr. Larsen, referring to your direct
14 testimony on page 7, lines 9 through 11, can you explain
15 your answer in light of your answer in your direct
16 testimony?

17 A. I'm making sure I've got the right copy here.
18 That's the line that starts with, the company would
19 prefer?

20 Q. That's correct.

21 A. Okay. And can you repeat the question that's
22 pending?

23 Q. Sure. In light of your answer on page 7 of
24 your direct testimony in which you state, the company
25 would prefer to fulfill its commitment under the rate

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1 plan and not seek relief through a general rate case if
2 limited relief can be obtained through the company's
3 proposal in this proceeding, how is that answer
4 consistent with your answer that you are seeking interim
5 rate relief?

6 A. I'm not sure what distinction you're driving
7 at.

8 Q. All right, let me try to be more specific
9 about it. It's my understanding under Washington law
10 that a company can not come in and seek interim rate
11 relief without filing a general rate case. Do you
12 disagree with that statement?

13 A. I think that's probably a legal conclusion,
14 but generally interim relief as I understand it is
15 provided when a general rate case is filed and there's a
16 need to, because of financial stress on the company, to
17 provide interim rates until the full case is heard.

18 Q. Has the company filed a general rate case in
19 Washington since the general rate case that resulted in
20 the rate plan in 2000?

21 A. No, it has not. And I guess I would add, if
22 the rate plan and the stipulation that was entered into
23 provides in Section 11 that interim relief can be filed
24 for but it's precluded unless a general rate case is the
25 only mechanism, I don't see how the rate plan or the

0136

1 stipulation would allow any relief.

2 Q. Well, let's -- in other words, it's not your
3 understanding that Section 11.A contemplated the filing
4 of an interim rate case in conjunction with a general
5 rate case?

6 A. What I believe it contemplates is that in
7 between the period when the rate plan was established
8 and its conclusion at the end of December 2005 that some
9 type of interim rate relief could be granted a company
10 if it met the two part standard, one being the PNB
11 standard, and the other is that it's filed for similar
12 type relief in other states. And so if interim rate
13 relief under that was given and it had to be in the
14 context of a general rate case but a general rate case
15 couldn't be filed, the company would receive -- say we
16 filed a general rate case today, we received interim
17 relief but the case wouldn't be in effect until the end
18 of the rate plan, you would have interim rates for that
19 period of time until they could actually hear the case.
20 I don't think it was contemplating such a situation. I
21 think it was a fairly simple mechanism that if there was
22 an emergency or financial hardship or gross inequity
23 that interim relief could be granted until the
24 conclusion of the rate plan when there would be a new
25 general rate case.

0137

1 Q. Mr. Larsen, what was your role in developing
2 the rate plan and the stipulation?

3 A. In the case I was the primary revenue
4 requirement witness, testified in the proceeding in that
5 regard and didn't -- I wasn't the primary negotiator on
6 it, but I was involved in the discussions on the
7 company's side in the development of the position that
8 we would agree to.

9 Q. Would you have specific information to refute
10 an interpretation of Section 11.A that reading the title
11 reopener in conjunction with how interim rate relief is
12 traditionally dealt with in Washington does require the
13 filing of a general rate case in order for you to meet
14 the requirements of getting interim rate relief in
15 Washington? In other words, was there an intent of the
16 parties to somehow or another change Washington law on
17 this point?

18 A. No, we're not trying to change Washington
19 law. We're -- stepping back for a minute and looking at
20 the company's intent here, we're trying to find an easy
21 mechanism to deal with the financial hardship and the
22 gross inequity that the company has suffered as a result
23 of the rate plan and putting forward a deferred
24 accounting mechanism to seek limited relief on an
25 interim basis through the use of the merger credits, the

0138

1 Centralia credit, to offset the cost. If the Commission
2 finds that that isn't appropriate, then we have proposed
3 as an alternative that we reopen the rate plan, that we
4 would file a general rate case and establish new rates.
5 And whether the Commission deems that those go in as an
6 interim basis from this hearing until the general rate
7 case is filed and the full costs are reviewed, the
8 company is just looking for some mechanism and level of
9 relief.

10 Q. Wouldn't you agree, Mr. Larsen, that what
11 your proposal is here is sort of a hybrid proposal, that
12 you're taking the language that allows you to file for
13 deferred accounting and trying to come up with some type
14 of mechanism that allows you to recover dollars, but yet
15 the company is not filing an interim rate case
16 associated with a general rate case as contemplated
17 under Section 11.A?

18 THE WITNESS: Can you read that question
19 back.

20 (Record read as requested.)

21 A. To make sure that you're clear of the
22 company's position, we have filed for deferral of costs
23 upwards of \$17 1/2 Million and looking for a mechanism
24 for relief from the Commission for those costs, deferral
25 of costs, recovery of them through an interim mechanism,

0139

1 using either the Centralia credit, the merger credit, or
2 a surcharge to customers. In the event that that isn't
3 acceptable, then we would request that a general rate
4 case is allowed as a reopener.

5 Q. Thank you.

6 Continuing to refer to Exhibit 2, the rate
7 plan stipulation, did the rate plan stipulation allow
8 PacifiCorp to raise rates by 7%?

9 A. I believe you're referring to Paragraph 2?

10 Q. Yes.

11 A. The rate plan stipulation provided three
12 increases over the five year provision of the plan, a 3%
13 in the first year, a 3% in the second year, and a 1% in
14 the third year. That's the 7% you're referring to,
15 adding those up.

16 Q. Is that a yes?

17 A. Yes.

18 Q. Has PacifiCorp increased its rates in
19 accordance with the rate plan stipulation?

20 A. Yes, I believe it has.

21 Q. Has the company now received the full rate
22 increase benefits that it negotiated in the rate plan
23 stipulation?

24 A. Yes, the company has been receiving those
25 increases. On the flip side, customers have received

0140

1 substantial benefits, not only from the rate plan
2 limiting the company's prices, but also the substantial
3 benefits that have flowed to them as a result of the
4 company's prices held constant during a very volatile
5 period in the Western energy market, resulting in
6 upwards of \$98 Million of benefits flowing through to
7 customers for power costs that they haven't had to pay.

8 Q. We'll get to the customer side of the
9 equation in a moment, Mr. Larsen, but I would like to
10 have a clear record on this, so I'm referring to the
11 company at the moment. Has the company now received the
12 full rate increase benefits it negotiated in the rate
13 plan stipulation? And if you could answer yes or no.

14 A. Yes.

15 Q. Under Section 2 of the rate plan, it
16 identifies rate increases for the years 2000, 2001,
17 2002, but isn't it correct that there are no further
18 rate increases permitted after 2002 through the duration
19 of the rate plan, I'm sorry, 2003?

20 A. No, I don't agree with that, because subject
21 to Section 11, there can be a reopener, so we're not
22 precluded without any provision of any additional
23 changes.

24 Q. Correct, but looking at Section 2, which sets
25 forth what I think of as the general agreement, the

0141

1 essence of the rate plan stipulation, the rate plan
2 allowed the company to increase rates for three years,
3 and in exchange for that, the company agreed not to
4 increase base rates for the last two years; isn't that
5 correct?

6 A. Yes, the company agreed to the increases of
7 the 3-3-1, but when you say essence of the rate plan, I
8 say I believe the entire document addresses the essence
9 of the agreement, which covered not only a five year
10 plan for stability in Washington, it provided for the
11 increases in the first three years, it provided a
12 mechanism to deal with issues in the event that the
13 company needed to file for deferrals, and it provided
14 specific provisions in the case of financial hardship,
15 gross inequities, emergencies, to review that for
16 interim relief. I think all those are very important to
17 the entire document, not just Section 2.

18 Q. But wouldn't you agree that if you put aside
19 the exceptional circumstances that are defined in
20 Section 9 and Section 11 that the essence of the rate
21 plan was to allow the company three years of rate
22 increases, and in exchange the customers would see two
23 years of no general rate increases?

24 MR. VAN NOSTRAND: Your Honor, I'm going to
25 object. This question has been asked and answered. I

0142

1 believe Mr. Larsen answered the question as it was put
2 to him before, which is what he understands the essence
3 of the rate plan to be.

4 JUDGE MOSS: I think the question has been
5 amended some, I'm going to overrule the objection.

6 THE WITNESS: Can you read the question back.
7 Or provide --

8 JUDGE MOSS: Let me just shorten this if I
9 can. The question, Mr. Larsen, is putting aside
10 Sections 9 and 11 and what they may provide in terms of
11 exceptional circumstances, is it your view that the
12 essence of the rate plan is captured in Provision 2, or
13 is that not your view?

14 A. Yeah, that's my understanding absent the
15 exceptional circumstances in 9 and 11.

16 BY MS. DAVISON:

17 Q. Would you agree that an important purpose of
18 the rate plan was to provide customers with rate
19 stability for a period of five years?

20 A. Yes.

21 Q. Has PacifiCorp achieved any significant
22 merger savings associated with the Scottish Power
23 merger?

24 A. Yes, it has.

25 Q. In your direct testimony, which I believe is

0143

1 page 8, you state in Oregon Docket UM-995 that the
2 Oregon Public Utility Commission has allowed the company
3 to recover \$130 Million in excess net power costs; is
4 that correct?

5 A. Yes.

6 Q. In UM-995, did the company propose a sharing
7 mechanism?

8 A. Let's see, I don't recall initially if we
9 filed seeking a sharing mechanism. I know ultimately
10 the decision out of the commission was a sharing.
11 Roughly we had I believe \$259 Million roughly of costs
12 that we requested, and we received about \$130 Million as
13 a recovery.

14 Q. Mr. Larsen, I would refer you to Exhibit 20,
15 page 9, at the bottom of the page, the order in UM-995
16 states that:

17 PacifiCorp proposes that it receive an
18 opportunity to recover most of its
19 excess power costs less an appropriate
20 sharing percentage to provide an
21 incentive to control costs.

22 Do you see that?

23 A. Page 9?

24 Q. Page 9 of Exhibit 20, the bottom of the page.

25 A. PacifiCorp's proposal?

0144

1 Q. Yes.

2 A. Yes, I see that.

3 Q. Do you have any reason to disagree with that?

4 A. No.

5 Q. Isn't it correct that the sharing mechanism
6 that was ultimately adopted by the OPUC reduced the
7 amount that PacifiCorp could actually defer by
8 approximately 50%?

9 A. I believe that's roughly the case.

10 Q. Has PacifiCorp proposed a sharing mechanism
11 in this proceeding?

12 A. No, it has not. The company feels that its
13 shareholders have already borne a significant burden,
14 that there has been gross inequity in the sharing
15 mechanism, namely that the company as identified by
16 Mr. Widmer has experienced in excess of \$98 Million of
17 costs already. And for the purpose of this hearing,
18 we're seeking a limited amount of around 17.

19 Q. Mr. Larsen, isn't it correct that the
20 deferral period in this case covers a portion of 2002
21 beginning in July through June of 2003?

22 A. We requested deferrals from June 1, 2002,
23 through May 31, 2003.

24 Q. And for the period of time that is actually
25 at issue in this case, has the company proposed a

0145

1 sharing mechanism?

2 A. No, it has not. The company has not proposed
3 a sharing of the 16, \$17 Million.

4 Q. So the concern that is identified in UM-995,
5 that is an incentive to control costs through a sharing
6 mechanism, is not present in this case?

7 A. No, it's not in this case, and I don't
8 believe that they're directly comparable.

9 Q. Did PacifiCorp in Wyoming propose a sharing
10 mechanism?

11 A. Yes, it did.

12 Q. Has PacifiCorp recently laid off any
13 employees in response to your current financial
14 condition?

15 A. We haven't had any layoffs, but the company
16 as part of its transition plan has pursued aggressively
17 the reduction of costs overall. I believe since the
18 merger we have had roughly a reduction in force of about
19 748 employees.

20 Q. Has PacifiCorp suspended any new hiring?

21 A. No, it has not. Actually, the company has
22 began a -- I think a strong campaign to hire people
23 particularly in the trades, bringing new apprentices and
24 people out in the fields to serve our customers and to
25 start developing new apprentices and journeymen,

0146

1 linemen, because of an aging work force.

2 Q. Has PacifiCorp deferred purchases of new
3 equipment generally?

4 A. I'm not sure I can answer that. It's fairly
5 broad. Can you -- what specific equipment, plant, power
6 plants, what?

7 Q. Let's put it in this context. Have you seen
8 any company-wide memoranda saying as a matter of policy
9 we're going to defer purchases of equipment?

10 A. Well, the company is pursuing its transition
11 plan, which had the review of our operating expenses as
12 well as a review of our capital programs and capital
13 expense and trying to find ways to provide service at
14 the least cost through the establishment of the
15 transition plan.

16 Q. Have you forgone any recent equipment
17 purchases in response to your current financial
18 condition?

19 A. I don't believe that we have made decisions
20 purely as a result of the financial condition of the
21 company. The company has an obligation to serve, and so
22 it does have to make the investments necessary to serve
23 customers. The issue is then the company's meeting its
24 obligation, and it's shareholders are funding that, and
25 we're looking for a balance and some relief to help in

0147

1 that situation.

2 Q. So would you say that what the company is
3 proposing here in this case before the Commission today
4 is, in fact, an equity type relief, a fairness? You
5 have used those words many times this morning. Is that
6 the best way to characterize what you're asking for, is
7 that as a matter of equity or as a matter of fairness
8 the company needs some relief from the rate plan?

9 A. What I believe I have referred to is gross
10 hardship and gross inequity, which I believe are from
11 the PNB standards. Let me refer to that. Yeah, as part
12 of the PNB standards:

13 Interim rate increase is an
14 extraordinary remedy and should be
15 granted only where an actual emergency
16 exists or where the relief is necessary
17 to prevent gross hardship or gross
18 inequity.

19 I was referring to Bench Request Number 6
20 from our last case.

21 Q. Has PacifiCorp deferred any new construction
22 projects?

23 A. I'm trying to think. That's a fairly broad
24 category. I'm trying to think across all of the
25 company's activities. I don't believe that we have

0148

1 deferred significant capital investments that are
2 required for serving our customers.

3 Q. But turning back to Section 11 of the rate
4 plan, does it require PacifiCorp to seek similar interim
5 rate relief from its two largest retail jurisdictions,
6 Oregon and Utah?

7 A. Yeah, Paragraph 11.A states:
8 The company is requesting similar rate
9 relief in its two largest US retail
10 jurisdictions.
11 Currently that would be Utah and Oregon.

12 Q. Is the company currently requesting similar
13 rate relief in Oregon and Utah?

14 A. Yes, the company has requested similar relief
15 to deal with the situations that the company has had to
16 deal with.

17 Q. Can you be more specific, please? Let's take
18 Oregon first, have you sought interim rate relief in
19 Oregon?

20 A. The company has sought a number of mechanisms
21 to deal with the hardships that it's experienced because
22 of the last several years in the western markets and the
23 situation the company has faced. The company had a
24 number of various dockets. The company filed since --
25 going back and starting with Oregon generally, we filed

0149

1 UE-116, which was a general rate case. We requested
2 \$160 Million.

3 Q. What year did you file that?

4 A. That was in October of 2000. We received \$64
5 Million of an increase.

6 Q. I'm sorry, Mr. Larsen, actually my question
7 to you was very specific, and I have read your testimony
8 where you have laid out all what you're reading from.
9 What I would like to explore with you is whether you
10 have filed an interim rate request in Oregon let's say
11 in the last six months, let's say in the last year?

12 A. Well, the company --

13 Q. And can you please answer yes or no, and then
14 explain.

15 A. No, not in the last six months, the company
16 has not filed for interim relief.

17 Q. Has the company filed for interim rate relief
18 in Oregon in the last 12 months?

19 A. No, just probably 15 or 18 months.

20 Q. And which filing are you referring to that
21 you sought interim rate relief in Oregon?

22 A. Well, the company sought relief through a
23 deferral of power costs and received authorization for
24 that. The company also filed for a PCA and an interim
25 increase roughly at the same time, and it was denied

0150

1 because it was receiving recovery through its deferral
2 mechanism of \$22.8 Million a year under the Oregon
3 rules.

4 Q. Could you turn to your Exhibit 22, please.
5 Is this the filing in Oregon that you were just
6 referring to?

7 A. It's one of them.

8 Q. Is Exhibit 22 a filing in which the company
9 claims it was seeking interim rate relief?

10 A. Yes, the company was seeking for \$42.7
11 Million over a three month period through this filing.

12 Q. Are you aware that this entire exhibit
13 represents the company's entire filing in this case in
14 Oregon?

15 A. Subject to check.

16 Q. I'm sorry, actually there were a couple of
17 other minor pieces of testimony that accompanied that,
18 but it's roughly a filing of this magnitude. In other
19 words --

20 MR. VAN NOSTRAND: Objection, Your Honor,
21 minor pieces --

22 MS. DAVISON: I'm going to rephrase it --

23 MR. VAN NOSTRAND: -- of testimony is a --

24 JUDGE MOSS: Wait, one at a time, we can't
25 record more than one person speaking at a time, and I do

0151

1 want you to allow each other to finish speaking.

2 So you had posed a question, Mr. Van Nostrand
3 was trying to state his objection. Let's hear his
4 objection, and then we'll hear your response.

5 MR. VAN NOSTRAND: My objection to vague
6 references to minor pieces of testimony hardly provides
7 a basis for this witness to comment on the magnitude of
8 the company's filing in that case.

9 JUDGE MOSS: Okay, I think you may rephrase
10 your question.

11 MS. DAVISON: Thank you.

12 BY MS. DAVISON:

13 Q. Mr. Larsen, the case that you're referring to
14 in Oregon is set forth in Exhibit 22, and subject to
15 check there are two other minor pieces of testimony that
16 are not attached to it. Sitting here on the corner of
17 the table minus one volume is the company's filing for
18 general rate increase in Oregon that you made on
19 Tuesday. Do you consider your request for a PCA in
20 Oregon, which was denied, to be of the same magnitude as
21 the rate increase that you have just sought in Oregon on
22 Tuesday?

23 A. No, they're clearly different filings with --
24 addressing different issues.

25 JUDGE MOSS: And for the clarity of the

0152

1 record, Ms. Davison was indicating a pile of papers
2 approximately 10 to 12 inches high.

3 Do you have much more, Ms. Davison, with this
4 witness? You had indicated about 60 minutes and we're
5 there now.

6 MS. DAVISON: I probably have another 15
7 minutes or so, but I will take less with other
8 witnesses.

9 (Discussion on the Bench.)

10 JUDGE MOSS: All right, let's go ahead and
11 take our morning recess, and we will be in recess for
12 ten minutes. Please try to be back in your seats by ten
13 minutes before the hour by the wall clock.

14 (Recess taken.)

15 JUDGE MOSS: Go ahead, Ms. Davison.

16 BY MS. DAVISON:

17 Q. Mr. Larsen, referring to Exhibit 22, did the
18 company make any showing or allege financial hardship
19 associated with its request for a PCA in Oregon?

20 A. No.

21 Q. I have a couple of very quick questions
22 referring back to the rate plan stipulation just to make
23 sure we have a clear record on those. Is the company
24 seeking to reopen the rate plan pursuant to Section
25 11.B?

0153

1 A. No.

2 Q. Is the company's filing in this case seeking
3 any rate changes pursuant to Section 9.A through F?

4 A. No, with the caveat that in Section A it does
5 discuss regulations, and one of the impacts that we did
6 have that caused us to experience some of the power
7 costs was the change of the FERC regulations and the
8 establishment of a price cap.

9 Q. Are you seeking to change rates pursuant to
10 9.A?

11 A. It would impact the amount of the deferral as
12 a result of that change in regulation, so I think 9.A
13 does have an impact on the remainder of Section 9 in
14 terms that the company has filed for a deferral.

15 Q. It's an important point, so I would like to
16 get a yes or a no answer from you. Is the company
17 seeking to change rates as provided for in Section 9.A
18 of the rate plan stipulation?

19 A. Yes, to the extent that it has impacted power
20 costs for the FERC changes to the price cap in the
21 western energy markets. And I'm not -- clarifying that,
22 we're not changing rates, we're requesting relief
23 through the filing of the deferral and a recovery
24 mechanism. We're not changing base rates.

25 Q. Well, let's -- if you look at Section 9, it

0154

1 states that:

2 The company is not precluded from
3 seeking a tariff or a change in rates
4 for the following reasons.

5 Isn't that correct?

6 A. Yes, that's correct.

7 Q. So if you are seeking rate relief pursuant to
8 9.A, wouldn't you have to do it through a tariff or a
9 rate change pursuant to the terms of 9.A?

10 A. No, I don't believe so. It provides that the
11 company is not precluded or the Commission from
12 approving tariffs or rate changes, and if there is a
13 surcharge mechanism or some other form of recovery that
14 would be in the form of a tariff, then I think it would
15 fall under that.

16 Q. Okay, so just so the record is clear on this,
17 so you are requesting some relief pursuant to Section
18 9.A, and you are requesting a tariff change pursuant to
19 9.A in this case; is that correct?

20 A. No.

21 Q. All right, what are you requesting pursuant
22 to Section 9.A?

23 A. I was just pointing out the fact that because
24 of a change in regulation, and I'm not sure how that is
25 to be interpreted, that there was a change in FERC price

0155

1 caps that impact deferrals of power costs which the
2 company has based its deferral and its balance to be
3 recovered on. So to the extent that the company has
4 requested deferral and is seeking relief, embodied in
5 that are the impacts of the summer of 2002 forward
6 purchases that the company had entered into, which were
7 out of market because of the changes associated with the
8 FERC price cap, which I think falls under regulations.
9 So we're not explicitly requesting relief of a change in
10 regulation, but it does have an impact I'm just trying
11 to point out on the company's deferral.

12 Q. So you're not requesting relief under Section
13 9.A then?

14 A. No, we're seeking recovery through the
15 deferral of costs and a recovery mechanism. Absent
16 that, the company would like a reopener of the rate
17 case, of the rate plan, and file a general rate case.

18 Q. Has the company presented evidence regarding
19 its company-wide rate of return?

20 A. No, I don't believe it has in terms of the
21 specific rate of return. It's all factored on a
22 Washington only basis.

23 Q. I'm sorry, was that a no? I didn't, I'm
24 sorry, I didn't --

25 A. No.

0156

1 Q. Thank you. Has the company presented
2 evidence on a company-wide basis regarding your interest
3 coverage?

4 A. No, it's important that we look at those
5 calculations all on a Washington specific basis so that
6 we're not looking at subsidization for Washington by the
7 other jurisdictions that have already provided either
8 interim relief or a relief through recovery of power
9 costs.

10 Q. Have you presented evidence on a company-wide
11 basis regarding your earnings coverage?

12 A. No, we have not.

13 Q. Have you presented evidence in this case on a
14 company-wide basis regarding your immediate or
15 short-term demands for new financing?

16 A. Yes, on a Washington basis. We have not on a
17 total company basis.

18 Q. On a company-wide basis, is PacifiCorp in
19 financial distress?

20 A. No, not on a company-wide basis, but clearly
21 on a Washington basis it is.

22 Q. I would like you to turn to Exhibit 17, page
23 25, paragraph 127.

24 CHAIRWOMAN SHOWALTER: I'm sorry, what
25 exhibit is that?

0157

1 MS. DAVISON: 17.

2 THE WITNESS: Which page?

3 MS. DAVISON: Page 25, paragraph 127.

4 BY MS. DAVISON:

5 Q. Do you have that?

6 A. Yes, I do.

7 Q. About halfway through or two thirds of the
8 way through that paragraph 127 on page 25 of Exhibit 17,
9 the Wyoming commission essentially concludes that you're
10 not facing a disabling financial emergency going
11 forward, but rather PacifiCorp characterizes recovery in
12 this case as a matter of fairness rather than crisis.
13 Isn't that, in fact, what you're arguing here as well?

14 A. Well, yes, if I could characterize it in the
15 language that I have used previously pursuant to the PNB
16 standards, that we see it as a matter of gross inequity
17 or gross unfairness.

18 Q. If you could turn to Exhibit 18, page 14,
19 please.

20 JUDGE MOSS: I'm sorry, I lost your reference
21 there, Ms. Davison.

22 MS. DAVISON: Exhibit 18, it is page 14. The
23 page numbers are in the upper right-hand corner.

24 JUDGE MOSS: Thank you.

25

0158

1 BY MS. DAVISON:

2 Q. Do you have that, Mr. Larsen?

3 A. Yes, I do.

4 Q. There are two references that I wanted to
5 point to. It starts at the sentence that's three lines
6 up from the indented quote about Scottish Power issuing
7 a report of its financial results of operation. Do you
8 see that?

9 A. The indented paragraph?

10 Q. Three lines before the indented paragraph,
11 could you refer to that.

12 A. Starting with what sentence?

13 Q. (Reading.)

14 Scottish Power has issued a report of
15 its financial and operating results for
16 the six month period ending September
17 2002.

18 A. Yes.

19 Q. Do you see that?

20 A. Yes.

21 Q. And then continue on down, and my question to
22 you is that Scottish Power has stated that PacifiCorp is
23 on track to double its operating profit over the next
24 three years. Isn't it correct that PacifiCorp's
25 financial condition overall is significantly improving?

0159

1 A. Yes, it is improving from the place that we
2 were at. You can easily double your profits when you're
3 at 3% or 4%. And you double that, you're still way
4 underearning your allowed rate of return, but you are
5 recovering. The company experienced over \$1 Billion of
6 power cost expenses, which put us in a very low earning
7 situation, and we are recovering from that.

8 Q. Is it your understanding that the PNB
9 standard is there as a backstop to allow you to come in
10 and improve your earnings to a level of your allowed
11 rate of return?

12 THE WITNESS: Can you read back the question.

13 (Record read as requested.)

14 A. No, I don't think the PNB standards are there
15 just to help the utility maintain its authorized rate of
16 return. It's there as a I think standards and guidance
17 identifying that the Commission has authority in proper
18 circumstances to grant interim relief, extraordinary
19 remedy that should be granted where there's either
20 emergency situations that exist or gross hardship or
21 gross inequity.

22 BY MS. DAVISON:

23 Q. What is your authorized rate of return in
24 Washington?

25 A. The last filing that we made --

0160

1 Q. No, I'm sorry, your authorized rate of
2 return.

3 A. Oh, authorized rate of return was 13.25%.

4 Q. Is that what's approved in the rate plan?

5 A. There was no identification of a rate of
6 return in the rate plan, so I guess anything that we're
7 measuring against technically would be against the 13
8 1/4.

9 Q. Well, that wouldn't be right, would it,
10 because the rate plan in effect reset your rates, and
11 wasn't there an explicit agreement in the rate plan that
12 there wouldn't be an authorized rate of return set forth
13 in the rate plan?

14 A. No, there was not a rate of return set forth
15 in that or agreed or approved by the Commission, so I
16 think the way that -- my understanding of the Commission
17 orders would be that the last authorized return in the
18 State of Washington is 13.25%.

19 Q. But, Mr. Larsen, when you filed your rate
20 case in 1999 that resulted in the 2000 rate plan, you
21 asked for 11%.

22 A. That's correct, and it wasn't approved at
23 that level.

24 Q. Well, isn't it correct that there was no
25 authorized rate of return set forth in the rate plan

0161

1 because the company wanted to have the flexibility to
2 achieve the transition plan savings without having to be
3 subject to an ROE check during the five year rate plan?

4 A. No, I wouldn't characterize it that, and I
5 don't want the Commission to get the impression that
6 we're trying to get to 13.25%. That clearly is not the
7 cost of capital in the current markets. In our recent
8 cases we have been filing in the range of 11 1/4%, 11
9 1/2%, seeking recovery for that. So while the rate plan
10 didn't specifically identify or have an agreement among
11 parties that was establishing a rate of return that was
12 the target, the company was agreeing to a plan that
13 would provide stability and an opportunity only to the
14 company to try to get back to a reasonable rate of
15 return given limited price increases and its achievement
16 of its transition plan.

17 Q. From your perspective, why doesn't the rate
18 plan set forth an ROE?

19 A. Well, in the last case, the company was the
20 only party that actually presented direct testimony, and
21 so there was only the company's position on the record.

22 Q. And that's your testimony as to why the rate
23 plan doesn't include an ROE?

24 A. Well, there is no other evidence from the
25 other parties. I guess they could have through

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1 stipulation or part of the agreement decided on an ROE
2 and brought that forth in the hearings with the
3 Commission. But I don't agree the purpose of the
4 stipulation was to specifically identify an ROE that the
5 company would be monitored against. There was no
6 provision in the stipulation for that.

7 Q. That's correct, and my question to you is,
8 isn't it correct that there was no specified ROE because
9 the company had identified that it was going through
10 this significant transition plan, and the point was that
11 the company wanted to be able to capture the savings
12 from the transition plan without being held to an ROE
13 bench mark; isn't that correct?

14 MR. VAN NOSTRAND: Objection, Your Honor,
15 this question was asked in pretty much the exact same
16 format. I think Mr. Larsen has answered pretty much to
17 the best of his ability in terms of what the purpose was
18 of not including an ROE in the stipulation.

19 JUDGE MOSS: I'm going to allow the question.

20 THE WITNESS: Can you read the question.

21 (Record read as requested.)

22 A. No.

23 BY MS. DAVISON:

24 Q. And if I understand your testimony,
25 Mr. Larsen, it is your position that there is no ROE set

0163

1 forth in the rate plan because the company was the only
2 party that submitted testimony in the rate case on ROE;
3 is that correct, is that your testimony?

4 A. That's part of the answer, that the company
5 was the only one that presented testimony. It's also
6 the fact that we were working on a stipulation, and
7 there was no agreement on establishing an ROE as part of
8 the stipulation.

9 Q. Why was there no agreement?

10 A. I don't know specifically. I wasn't at the
11 negotiating table in that, so I don't have intimate
12 knowledge of the discussion around that.

13 Q. Where is the company's current bond rating on
14 its first mortgage bonds?

15 A. We're generally an A with a negative outlook,
16 and that's on a total company basis. My exhibits show
17 for a Washington basis we would basically be BB or junk
18 bond status.

19 Q. But that's not how you're rated, is it;
20 you're not rated on a state-by-state basis, are you?

21 A. No, but neither are our rates set in average
22 across the company. They're done on a state by state
23 basis.

24 Q. I would like to turn to Exhibit 44 for a
25 moment. Do you have that in front of you?

0164

1 A. Yes.

2 Q. Could you turn to page 867. Do you see on
3 the middle of that page where Judge Moss asked the
4 question of Mr. Elgin regarding triggering Section 11 of
5 the rate plan; do you see that second paragraph?

6 A. Yes, I see that.

7 Q. And do you see that Judge Moss says:
8 This provision is in there basically to
9 provide for circumstance of electric
10 markets or credit markets going haywire.
11 Creating a situation where the company
12 can no longer function economically or
13 in a financial sound way would be a
14 better way to say it, I suppose.

15 And then do you see that Mr. Elgin answers,
16 yes; do you see that?

17 A. Yes.

18 Q. And isn't it correct that during this hearing
19 that none of the PacifiCorp witnesses disagreed with
20 Mr. Elgin's characterization of the triggering of
21 Section 11?

22 A. I don't believe so, subject to check.

23 Q. Are the electric markets currently haywire?

24 A. I'm not sure what the price is today, but
25 during the period that we're discussing here and looking

0165

1 at the relief that we're seeking, both electric markets
2 were haywire as well as the capital markets, with severe
3 dysfunction, downgrades, utilities going bankrupt, so I
4 think both those situations were occurring. And as we
5 look at the Washington specific results, we believe that
6 we meet those criteria.

7 Q. So is it your testimony, Mr. Larsen, that if
8 you are not granted relief in this case that that will
9 impair your access to the capital markets?

10 A. Not on a total company basis, because the
11 other jurisdictions because of their relief, both
12 interim as well as general rate cases that they have
13 provided, will help us to maintain that. But that is a
14 subsidization and not fair to them and not fair to the
15 company. When you look on a Washington specific basis,
16 it clearly does identify as shown in my Exhibit JKL-4
17 that we do have a financial hardship. We have
18 significant capital investments over the remaining piece
19 of the rate plan totalling over \$1.3 Billion.

20 Q. Can you turn to Exhibit 26, please. This is
21 an exhibit that was prepared by Mr. Falkenberg, and
22 Mr. Falkenberg essentially assumed for purposes of this
23 chart that we have a hypothetical industrial customer
24 that is 50 megawatts at 90% load factor, and this
25 customer has a plant located, exact same plant located

0166

1 in Oregon, Washington, Utah, and Wyoming. And
2 Mr. Falkenberg has taken your tariff rates and
3 calculated what the industrial customer would pay in the
4 various states. Have you had an opportunity to look at
5 this exhibit?

6 A. I have looked at it, but the rate comparison
7 for specific customers or customer classes is not my
8 area of specialty. I do understand that Mr. Griffith
9 has reviewed this thoroughly and has found significant
10 errors in it.

11 Q. Well, let's look at it from a general
12 standpoint that if you analyze the industrial rate for
13 the Washington customer versus the Oregon customer, that
14 it's 91% of Oregon with Oregon being the highest rate,
15 do you dispute that conclusion that the ranking of
16 Oregon being the highest industrial rate on your system,
17 Washington being the second highest?

18 MR. VAN NOSTRAND: Your Honor, I'm going to
19 object to continuing to subject this witness to
20 questions about this exhibit. He has clearly indicated
21 that Mr. Griffith is the one to whom questions should be
22 directed. He has indicated that Mr. Griffith has
23 discovered errors in this exhibit, and I believe it's
24 inappropriate to have this witness be expected to answer
25 questions in light of what he has already said with

0167

1 respect to this exhibit.

2 JUDGE MOSS: Well, there are some problems in
3 that area, Ms. Davison, but I think the witness can
4 answer the question as it was framed, which is simply
5 whether the witness disputes that Oregon is the highest
6 and Washington is the second highest for industrial
7 customers in terms of its rates. You don't need to
8 refer to this exhibit to answer that, if you can.

9 THE WITNESS: Can you read the question as
10 posed, if I should answer yes or no.

11 JUDGE MOSS: Let me see if I can just cut
12 through that. I think the question simply is whether
13 Washington is the second highest industrial rates
14 relative to Oregon, which is the highest.

15 Is that essentially your question at this
16 juncture?

17 MS. DAVISON: On a tariff basis, yes.

18 JUDGE MOSS: On a tariff basis.

19 A. No, I believe it is the lowest, and
20 Mr. Griffith would have evidence to show that.

21 BY MS. DAVISON:

22 Q. All right, well, I guess we'll save that for
23 Mr. Griffith.

24 Nevertheless, you have stated repeatedly that
25 you have received rate relief from other jurisdictions

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1 and that in essence it's not fair if you don't get
2 relief in Washington. Is that the essence of what you
3 have been talking about this morning? And you have
4 referred to a rate subsidy if, in fact, you don't get
5 rate relief?

6 A. Can you rephrase the question.

7 Q. Sure, let me try to make it a little cleaner.

8 A. Yeah.

9 Q. As I have understood your testimony this
10 morning, you have stated repeatedly that you have
11 received rate relief in your other jurisdictions,
12 correct?

13 A. Yes, we have received similar relief for the
14 situation the company has experienced over the last
15 couple of years related to dysfunctional markets and
16 excessive power costs.

17 Q. And it's your testimony that there would be
18 an unfair rate subsidy if you don't receive relief in
19 Washington; is that correct?

20 A. Yes, and if I could characterize it in my own
21 words, Washington's situation as a result of the last
22 couple of years has created a dire hardship, if I could
23 use those words, on our shareholders if you were to look
24 at just the results in the state of Washington. The
25 results that we put forth in our Commission basis

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1 report, our semi-annual results showed that for March
2 2002 we were at 6.9% ROE. That is fully normalized,
3 reflected ongoing situation with extraordinary events
4 removed. If were to look at it in the manner that the
5 Staff examines it with, type one adjustments, just
6 Commission ordered adjustments and no annualization, no
7 pro forma adjustments, that would actually be 1.3%
8 return on equity for March 2002. When you remove the
9 power costs and say those are gone, those aren't
10 ongoing, it looks like our returns are reasonable. But
11 shareholders carried all of that, \$98 Million.

12 So I think there has been a situation where
13 the results in Washington are being subsidized by the
14 other states in the form that they have provided relief,
15 they have provided cash flow so that the company could
16 continue its operations, it could maintain an A credit
17 rating. If Washington were identified as a separate
18 company, a stand-alone utility, in the situation that
19 it's in now it couldn't get the financing at reasonable
20 terms, it may not even be able to get the cash to invest
21 in the facilities, and it would be in serious financial
22 difficulty.

23 Q. Given this alleged financial distress that
24 you have in Washington, I am perplexed, Mr. Larsen, why
25 the company didn't come in a year ago and make a

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1 straightforward interim rate case filing followed by a
2 general rate case and follow the requirements of the
3 stipulation, the rate plan stipulation, as opposed to
4 coming in a year or two years later after this crisis
5 and filing a deferred accounting application?

6 A. The company was working with parties to try
7 and identify and find a solution to this. We ended up
8 with a deferral mechanism seeking recovery. The company
9 has tried to honor the rate plan. We want to keep
10 prices stable in Washington. That's clearly a benefit
11 to our customers. In the extent that over the remaining
12 years of the rate plan we're held below our allowed rate
13 of return, that's a benefit flowing through to
14 customers. That benefit would disappear to the extent
15 we file a general rate case and reopen rates and
16 establish new tariffs. So the company is trying to do
17 the right thing, trying to honor the rate plan and yet
18 seek some form of limited relief so that it is fair to
19 both shareholders and to rate payers.

20 Q. But isn't it true that the parties to this
21 rate plan stipulation have generally told you that they
22 would prefer that you follow the terms of the rate plan
23 stipulation and that you come in and make an actual full
24 interim rate case followed by a general rate case filing
25 so that all costs can be looked at, not just a tiny

0171

1 sliver of costs that you have done here with this
2 deferred accounting application?

3 A. Well, I'm not sure I can speak for what
4 parties are currently thinking. I think we have clearly
5 put forth the company's position that our first
6 preference is the limited relief that we have requested,
7 and if that's not accepted by the Commission, that they
8 approve the reopener of the general rate case and we
9 move forward with a full review and reestablishment of
10 rates this year.

11 Q. Isn't it true that you did not come in and
12 file for an interim rate case as set forth in the rate
13 plan stipulation because you can't meet those
14 requirements on a company-wide basis?

15 A. I don't believe it asked for the company to
16 make a showing on a company-wide basis. The company has
17 made the appropriate showing under those standards for
18 its operations in the state of Washington.

19 Q. The costs that are set forth in your deferred
20 accounting application are what you have termed excess
21 net power costs; is that correct?

22 A. Where are you referring?

23 Q. I'm referring to generally what's at issue in
24 this case.

25 A. Yes, generally.

0172

1 Q. And you referred earlier to your 2002 summer
2 contracts which are included -- which you would like to
3 include in this deferred account; isn't that correct?

4 A. Yes.

5 Q. Did you enter into those contracts to serve
6 Washington load?

7 A. Well, generally we entered into those to
8 serve all of our retail customers, and I would have to
9 probably defer the specifics of those contracts to
10 Mr. Widmer.

11 Q. Isn't it true that since this rate plan
12 stipulation has been entered into that load in
13 Washington is declining? And I would refer you to
14 Exhibit 9.

15 A. Exhibit 9?

16 JUDGE MOSS: That was previously your Exhibit
17 JKL-7.

18 A. Right, okay. Since the filing of the
19 deferral or the rate plan?

20 Q. Well, since the inception of the rate plan,
21 which relied on 1998 data. That was the data that you
22 used for the rate case. Since 1998, are Washington
23 loads declining?

24 A. In 1998, and I'm actually -- my Exhibit 9 was
25 updated through 2002 with the response to Data Request

0173

1 Number 70, so if you look from '98 to 2001, '98 was 4.4
2 million megawatt hours, and in 2001 it was 4.4 million.
3 If you look at 2002, it dropped to 4.384. So during the
4 period, it did grow in the middle years and then return
5 back to its '98 level on a megawatt hour basis.

6 Q. Well, isn't the load lower now than it was in
7 1998?

8 A. It's about 75,000 megawatts lower in 2002
9 than in 1998.

10 MS. DAVISON: Thank you.

11 I don't have any further questions, Your
12 Honor, thank you.

13 JUDGE MOSS: Thank you.

14 Mr. Cromwell, I think you had indicated about
15 20 minutes or so with this witness.

16 MR. CROMWELL: I think we can tighten that up
17 a little bit, Your Honor.

18 JUDGE MOSS: Well, I notice it's 20 minutes
19 before the noon hour, which is normally when we break
20 for lunch.

21 MR. CROMWELL: I will endeavor to complete my
22 questioning by noon.

23 JUDGE MOSS: Thank you.

24

25

0174

1 C R O S S - E X A M I N A T I O N

2 BY MR. CROMWELL:

3 Q. Good morning, Mr. Larsen. My name is Robert
4 Cromwell. I'm an Assistant Attorney General with the
5 Public Counsel section of the Attorney General's office.
6 Can you hear me okay?

7 A. Yes, good morning.

8 Q. Good morning. I believe you have stated
9 previously that you have reviewed the rate plan
10 stipulation and the order adopting it by this
11 Commission; is that correct?

12 A. Yes.

13 JUDGE MOSS: Mr. Cromwell, could you moderate
14 your pace of speech just a little bit. Thank you.

15 MR. CROMWELL: Sure, I apologize.

16 BY MR. CROMWELL:

17 Q. Isn't it true that neither that stipulation
18 nor the order adopting it approved a specific level of
19 approved power costs?

20 A. That's correct.

21 Q. Isn't it also true that neither the
22 stipulation nor the order adopting it approved a
23 specific methodology for determining a level of approved
24 power costs?

25 A. That's also correct.

0175

1 Q. Isn't it also true that neither the
2 stipulation nor the order adopting it approved of the
3 Modified PITA Accord power cost methodology?

4 A. That's correct, there was no finding on a
5 specific allocation method.

6 Q. Isn't it true that on February 5th of 2003,
7 Scottish Power, your parent company, issued its 2002
8 third quarter and year-to-date results?

9 A. Subject to check on that date.

10 Q. Okay. Would you accept subject to check
11 that, in fact, on February 5th Scottish Power issued its
12 2002 third quarter and year-to-date results?

13 A. The first time did you say February 3rd?

14 Q. I'm sorry, February 5th.

15 A. Okay. Yes, subject to check.

16 Q. Okay. Would you accept subject to check that
17 Scottish Power reported that PacifiCorp's 2002
18 year-to-date profits had continued to improve?

19 A. Yes, that's generally correct, without
20 quoting the specific language in the release.

21 Q. And would you also accept subject to check
22 that Scottish Power also stated that PacifiCorp's
23 underlying profit continued to improve and remain on
24 track to achieve its profit targets for the year, the
25 year being 2002?

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1 A. Yes, and translating that into regulatory
2 speak, for that period it would mean roughly on a
3 normalized basis that the company would be earning about
4 6.3% on its return on equity company wide.

5 CHAIRWOMAN SHOWALTER: Mr. Larsen, can you
6 speak up a little more or speak closer to the
7 microphone.

8 THE WITNESS: I'm not sure if it's working.
9 The button's down, but I --

10 JUDGE MOSS: No, it should be up.

11 CHAIRWOMAN SHOWALTER: It should be up.

12 THE WITNESS: Can you hear me now? Oh, okay,
13 got it reversed.

14 BY MR. CROMWELL:

15 Q. Mr. Larsen, would you also accept subject to
16 check that Scottish Power similarly indicated that the
17 transition plan cumulative benefits for PacifiCorp were
18 on track with a total of \$192 Million achieved by
19 December of 2002 and a further \$28 Million achieved from
20 other efficiencies and savings?

21 A. I think we actually have a cross exhibit.

22 JUDGE MOSS: It's Exhibit Number 14.

23 A. Is there actually a specific language that
24 you're reading from?

25 Q. I was actually looking at the press release

0177

1 that your company issued rather than the actual third
2 quarter results, which I assume are somewhat more
3 voluminous than that 20 to 40 page summary that's in the
4 press release.

5 A. Referring to ICNU Cross Exhibit Number 14, it
6 says that -- the second paragraph on page 3.

7 CHAIRWOMAN SHOWALTER: What exhibit is this?

8 JUDGE MOSS: 14.

9 A. Exhibit 14, page 3:
10 Another key driver to doubling
11 PacifiCorp's profitability is the
12 transition plan.

13 CHAIRWOMAN SHOWALTER: Can we hold up a
14 minute. Are there page numbers on Exhibit 14?

15 MR. CROMWELL: I don't have those exhibits.

16 MR. VAN NOSTRAND: Upper right-hand corner.

17 THE WITNESS: Upper right-hand corner, page
18 3.

19 A. Second paragraph identifies the transition
20 plan remains on track. Cumulative benefits total \$164
21 Million, more than half way toward our goal of \$300
22 Million. I believe this is the half yearly report as of
23 September. If you're reading off of the third quarter
24 press release, it would be slightly higher than that
25 with an additional quarter of savings.

0178

1 MR. CROMWELL: I am, in fact, doing that.

2 Your Honor, would you like me to approach the
3 witness and show him what I'm referring to?

4 JUDGE MOSS: Well, is this an exhibit that
5 you're reading from?

6 MR. CROMWELL: To be honest, Your Honor,
7 these were predicate questions. I was trying to avoid
8 having to provide the third quarter results as an
9 exhibit.

10 JUDGE MOSS: All right, well, see if you can
11 get through your foundation fairly quickly here. If
12 we've got a document that we want to be in the record,
13 then let's make it an exhibit and refer to it and not
14 have to -- because having the witness verify these
15 statements subject to check is sort of a laborious
16 process. We've got an exhibit in the record that
17 captures these points.

18 MR. CROMWELL: Unfortunately, it does not,
19 Your Honor. My understanding from what Mr. Larsen just
20 said is that that is the second quarter report.

21 Oh, okay, thank you.

22 Mr. Sanger has kindly shown me that what I
23 was referring to is, in fact, also Exhibit 27.

24 JUDGE MOSS: All right, so then let's just
25 refer to Exhibit 27, and you can ask your questions

0179

1 based on that instead of having the witness verify all
2 of this stuff subject to check.

3 MR. CROMWELL: Sure.

4 BY MR. CROMWELL:

5 Q. If you would look at page 4, the bottom
6 paragraph, Mr. Larsen.

7 A. Yes.

8 Q. Do you see that paragraph?

9 A. Yes, the transition plan cumulative benefits
10 are on track with a total of \$192 Million achieved by
11 December '02. That includes -- that's for all of
12 PacifiCorp, so it's transition savings, merger benefits
13 achieved, also savings related to non-regulated
14 PacifiCorp activity.

15 Q. And a further \$28 Million?

16 A. Yes.

17 Q. And you have testified this morning with
18 regard to the company's transition plan, correct?

19 A. In what regard? I have talked about the
20 transition plan being implemented and achieving
21 benefits.

22 Q. And this is the same transition plan that
23 your parent company is referring to in this document,
24 correct?

25 A. Yes.

0180

1 Q. And this is also the same, if we look at the
2 stipulation, page 2, Section 1.B, second paragraph, is
3 this the same period of significant transition referred
4 therein?

5 A. Yes, it's a, well, yes, it's referring to a
6 period of transition. It wasn't referring specifically
7 to the implementation of just the transition plan. The
8 company was in a period of transition with the change in
9 management, the change in ownership, and part of that
10 overall transition was the establishment of the
11 transition plan.

12 Q. Thank you. And if we go back to Exhibit 44,
13 which I believe has been admitted, Your Honor?

14 JUDGE MOSS: Yes, it has.

15 Q. Do you have that, Mr. Larsen?

16 A. Yes, I do.

17 Q. Could you go to page 897. Ms. Kelly was the
18 company's witness at the settlement presentation
19 hearing, was she not?

20 A. Yes, she was.

21 Q. And she was authorized to speak on behalf of
22 the company in that capacity, was she not?

23 A. Yes.

24 Q. Would you read Ms. Kelly's statements. I
25 believe it's one sentence there, lines 18 through 24.

0181

1 A. Yes, starting line 18:

2 It's also a time when the transition
3 plan will have been fully implemented,
4 and so the result of that will be
5 reflected in test year operations, and
6 that will help to make sure that costs
7 and benefits match and we are not
8 arguing over known and measurable
9 changes. In fact, the transition plan
10 will be implemented at that time.

11 I assume this is talking about the end of the
12 rate plan period.

13 Q. I would make that assumption as well, but I
14 don't think the sentence itself is specific on it.

15 A. Yeah, it stands alone.

16 Q. But I think so.

17 A. Yeah.

18 Q. Would it be fair to say then, Mr. Larsen,
19 that from the company's perspective, the transition plan
20 savings anticipated to be achieved during the rate plan
21 period were a perhaps significant but certainly a
22 motivating factor in the company's decision to enter
23 into the stipulation?

24 A. Yes, I think it was a component of the
25 company's negotiation of that settlement, that we were

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1 giving up higher increases that we would have got from
2 our perspective through going through the rate plan or
3 the rate case, but setting base rates with the 3-3-1
4 percent increases and the company implementing its
5 transition plan, we thought we could get to a reasonable
6 level of earnings over the five year period. Clearly
7 that plan has been thwarted as a result of the power
8 market experience as well as unforeseen events since
9 September, 9-11, with clear cost run ups in areas that
10 we didn't anticipate such as pension, insurance,
11 security.

12 MR. CROMWELL: Your Honor, maybe a predicate
13 question, I'm not sure whether there is anyone in the
14 room who has not signed the confidentiality agreement.
15 I think everyone probably has.

16 JUDGE MOSS: Do you wish to inquire about
17 some of the confidential exhibits in detail?

18 MR. CROMWELL: No, I just wanted to refer
19 back to the transition plan, which my recollection is
20 from the '99 case that the company designated it as
21 confidential, and I just wanted to make sure there
22 wasn't anybody on the bridge or in the room, that any
23 reference I make to that document or its contents we're
24 not breaking that.

25 JUDGE MOSS: Well, the confidentiality that

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1 would be pertinent there would be the confidentiality
2 agreements and so forth in the prior case, not this
3 case, so I'm not quite sure how to direct you here if
4 you're bound by confidentiality agreements with respect
5 to something in the prior case.

6 MR. CROMWELL: Well, it was my understanding
7 that the Commission had entered an order consolidating
8 review. I'm thinking back to last summer. I can't
9 remember what the procedural impact of --

10 JUDGE MOSS: No, this case was consolidated
11 with Docket Number UE-991832 for the limited purpose of
12 considering a motion, and the motion was denied. As a
13 practical matter, any consolidation with the prior case
14 ended at that point in time.

15 MR. CROMWELL: I think we're probably all the
16 same parties.

17 JUDGE MOSS: Well, I'm just going to ask you
18 to frame your questions in such a way as to not get into
19 anything confidential rather than place yourself at risk
20 for violating prior commitments under the
21 confidentiality agreement in another docket.

22 BY MR. CROMWELL:

23 Q. Mr. Larsen, has the company since the '99
24 case released the transition plan as a public document?

25 A. Yes, there was a release and a filing.

0184

1 JUDGE MOSS: There you go.

2 Q. So I'm safe. Is it fair to say that that --

3 JUDGE MOSS: Put those handcuffs away.

4 MR. CROMWELL: Abundance of caution, Your
5 Honor.

6 BY MR. CROMWELL:

7 Q. Is it fair to say that the transition plan,
8 and I will confess to relying on a few years of
9 recollection, but that it had I think three levels of
10 anticipated results; there was a sort of a if you want
11 for better term a poor, medium, and best case?

12 A. Yeah, there was a base, I think it was called
13 base, optimistic, and highly optimistic was my
14 recollection.

15 Q. Okay. And where would the \$192 Million
16 achieved last year fit into that profile, if you can
17 say?

18 A. I believe what they're measuring off of is
19 the highly optimistic case.

20 Q. Well, then, Mr. Larsen, can you tell me, does
21 the company's case before the Commission today reflect
22 transition plan savings achieved to date?

23 A. Yes, I believe it does.

24 Q. And can you identify where it does so?

25 A. That would be reflected in Mr. McDougal's

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1 forecasts over the remaining rate plan, the results. To
2 the extent that any cost savings have been achieved in
3 our expectation of future costs, that would be reflected
4 there.

5 Q. Anywhere else?

6 A. To the extent that my exhibits are a summary
7 of Mr. McDougal's exhibits, it would be reflected there.

8 MR. CROMWELL: All right, thank you.

9 Nothing further, Your Honor.

10 THE WITNESS: Thank you.

11 MR. CROMWELL: I think I saved ten minutes
12 there.

13 JUDGE MOSS: Very good, Mr. Cromwell, you get
14 a gold star.

15 Mr. Cedarbaum, you had estimated about an
16 hour, and I'm wondering if we should take our noon break
17 before you start, because you'll just barely have time
18 to get started.

19 MR. CEDARBAUM: I don't have an hour, it's
20 probably at most half of that, and I'm indifferent as to
21 whether I start now or after lunch.

22 JUDGE MOSS: Let me consult with the Bench.

23 (Discussion on the Bench.)

24 JUDGE MOSS: All right, well, we will need to
25 take our recess now, and so what we'll do is break now

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1 until 1:30, so we'll see you all back here after the
2 luncheon recess.

3 We're off the record.

4 (Luncheon recess taken at 11:55 a.m.)

5

6 A F T E R N O O N S E S S I O N

7 (1:35 p.m.)

8

9 JUDGE MOSS: A housekeeping matter, during
10 the luncheon recess Mr. Cedarbaum handed up two
11 additional cross, potential cross-examination exhibits,
12 and those have been provided to the Bench, and I have
13 marked those for identification. Number 86 is the
14 company response to Staff Data Request Number 91, and
15 Number 87 for identification is the company response to
16 Staff Data Request Number 92, and those will be used in
17 conjunction with Mr. Widmer, who is, I believe, our
18 third witness.

19 So unless there's anything else, I think we
20 can proceed with the cross-examination, and,
21 Mr. Cedarbaum, we are to you. Mr. Larsen, I will remind
22 you that you remain under oath.

23 THE WITNESS: Yes.

24 MR. CEDARBAUM: Thank you, Your Honor. Just
25 a couple of procedural matters with respect to cross

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1 exhibits of Mr. Larsen. I would notice that what's been
2 marked as Exhibit 43 is the same as what's already been
3 admitted as Exhibit 12, so if you would like to remove
4 43, that would be fine with Staff.

5 JUDGE MOSS: All right, well remove 43 from
6 our list and note that it is a duplicate of Number 12.

7 MR. CEDARBAUM: The other procedural matter
8 was that during the lunch break I had a chance to talk
9 with Mr. Van Nostrand about the admission of the other
10 Staff cross exhibits, although I will also note that
11 Exhibit 44 already has been admitted.

12 JUDGE MOSS: Correct.

13 MR. CROMWELL: I believe we have an agreement
14 that all of the Staff remaining cross exhibits would be
15 admitted by stipulation rather than arguing about
16 whether Mr. Larsen or somebody else would be the
17 appropriate witness. That's with the understanding that
18 the company intends on cross examining Staff witnesses
19 on their responses to company data requests that are
20 listed between Exhibits 30 or at least some of those
21 exhibits between 34 and 42 and that we would then have
22 the right to do redirect on those exhibits as we deem
23 necessary.

24 JUDGE MOSS: That seems reasonable to me.

25 Mr. Van Nostrand, that's the agreement?

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1 MR. VAN NOSTRAND: That's the agreement, Your
2 Honor.

3 JUDGE MOSS: That will save time. I
4 appreciate counsel's effort during the luncheon recess
5 to accommodate the proceeding in that fashion, so we
6 will admit numbers 28C through 42 by stipulation.
7 Number 43 will not be offered as it is a duplicate of
8 Number 12. 44 has already been admitted, and then we
9 will pick up and admit Number 45 by stipulation.

10 And with that, then I believe we can proceed
11 with the cross-examination.

12 MR. CEDARBAUM: Thank you.

13

14 C R O S S - E X A M I N A T I O N

15 BY MR. CEDARBAUM:

16 Q. Hello, Mr. Larsen.

17 A. Good afternoon.

18 Q. I had just to begin a couple of clarifying
19 questions on some of your testimony from this morning,
20 and you had indicated in response to a question from
21 Ms. Davison that you were involved on the company side,
22 I believe you said, with the negotiations that led to
23 the stipulation and rate plan from the last case. Do
24 you recall that?

25 A. Yes.

0189

1 Q. By that, I take it you meant you were --
2 those were internal company side discussions as opposed
3 to face-to-face discussions with the other parties in
4 negotiations?

5 A. Yes, that's correct.

6 Q. You were also asked some questions or you
7 discussed with Ms. Davison the company's response to
8 Staff Data Request Number 70, which added 2002 data to
9 your Exhibit JKL-7, which is Exhibit 8; do you recall
10 that?

11 JUDGE MOSS: Actually it's Exhibit 9.

12 A. Exhibit 9, that's correct.

13 Q. And you indicated that between 1998 and 2002
14 the company's firm retail load in Washington went down;
15 do you recall that? I believe you indicated a number of
16 about 75,000 megawatt hours.

17 A. Yes, I believe that's correct.

18 Q. Would you agree subject to check that in Utah
19 for the same time frame the company's firm retail load
20 in megawatt hours increased by about 3 million?

21 A. Yes.

22 Q. I would like you to turn to Exhibit 1, which
23 is your direct testimony, on page 3. Do you have that?

24 A. Yes.

25 Q. On line 6 you refer to what I think is a

0190

1 nonconfidential number of \$486 Million of annual net
2 power costs; do you see that?

3 A. Yes.

4 Q. And then on lines 7 and 8 you refer to some
5 confidential numbers, which would be an amount of annual
6 net power costs for fiscal year 2004 and then another
7 amount for fiscal year 2006; do you see that?

8 A. Yes.

9 Q. And so what we're talking about are increases
10 in annual net power costs from the \$486 Million to the
11 amount shown for 2004 and the amount shown for 2006?

12 A. Yes.

13 Q. And those are total system increases; is that
14 right?

15 A. Yeah, total company net power costs.

16 Q. Is it correct, and I believe you answered
17 some of these questions this morning, but you haven't
18 produced any evidence to the Commission in this case
19 that these increases in system annual net power costs
20 have placed the total company in a need for emergency
21 rate relief; is that right?

22 A. On a total company basis, that would be
23 correct.

24 Q. If the company -- if there was a PacifiCorp
25 Washington stand alone company, would that company incur

0191

1 those increased annual net power supply costs?

2 A. Yes, their portion of that. If we were to
3 segregate the company, they would have to incur power
4 costs, and they're going up.

5 Q. Do you base that on any particular analysis
6 of that, or is that based on an application of an
7 allocation methodology?

8 A. I would draw my conclusion from the work that
9 Mr. McDougal did that my exhibits are based on for the
10 five year forecast. Included in that would be
11 escalating net power costs for the Washington only
12 jurisdiction.

13 Q. And is that the result of applying an
14 allocation methodology to break down total system cost
15 to Washington cost?

16 A. Yes, it does.

17 Q. And that's the Modified Accord methodology
18 that's been testified to by or subject to various
19 parties' testimony?

20 A. Yes.

21 Q. If you can refer to Exhibit 45, and can you
22 confirm or accept subject to your check that the exhibit
23 basically contains page 40 of PacifiCorp's 10-K report
24 for the fiscal year ended March 31st, 2002?

25 A. Yes.

0192

1 Q. Looking at the page 40, the page with the
2 number 40 at the bottom, it indicates in the first
3 paragraph under the subheading available credit
4 facilities about halfway down, the company assigned new
5 \$800 Million credit agreements that become effective
6 June 4th, 2002; do you see that?

7 A. Yes.

8 Q. And that it appears that about \$175 Million
9 of that has been utilized, leaving about \$675 Million
10 remaining; is that right?

11 A. Yes, that's correct, on a total company
12 basis.

13 Q. With respect to the \$175 Million that's been
14 utilized, that was borrowed at a cost of 2.2%; is that
15 right?

16 A. Yes.

17 Q. Do you believe that with respect to the \$675
18 Million that's outstanding that in today's interest rate
19 environment that the cost rate would be materially
20 different from that?

21 A. I'm not sure that I could speculate on that
22 given current circumstances, the war, what that will do
23 to short-term borrowing rates, so I'm not sure I can
24 answer that question.

25 Q. So you don't know whether the rate on the

0193

1 remaining line of credit would be different than 2.2%?

2 A. I don't know if that would be materially
3 different or not.

4 Q. I would like to just ask you a few questions
5 kind of about PacifiCorp history. Are you generally
6 familiar with the company's history from the acquisition
7 in 1989, the merger so called of Pacific Power and Light
8 and Utah Power and Light, and I'm not talking about, you
9 know, line and phrase, but just generally familiar up
10 through the structural realignment proposal that was
11 made across the companies through its territories and
12 then the multistate process that's currently underway?

13 A. Yes, I'm generally familiar with that time
14 period.

15 Q. Is it correct that at the time of the
16 acquisition in 1989 that generally speaking the
17 company's Washington operations were a winter peak load
18 and the company's Utah operations were a summer peak
19 load?

20 A. Yes, I believe that's generally correct. The
21 way I understand it was that on a divisional basis that
22 Pacific Northwest states were winter peaking, and Utah
23 Power and Light, the former Utah Power and Light, Utah,
24 Idaho, and Wyoming, was a summer peak. I'm not sure of
25 specifically the states' contributions to that.

0194

1 Q. That's fair, but generally speaking?

2 A. Yeah.

3 Q. That's the case? And would that have been
4 the case at the time of the structural realignment
5 proposal and today as far as you know?

6 A. I can't say for sure. I believe there was
7 some move on the Utah side, that there was some winter
8 peaking there, but I can't recall exactly that it was
9 contributing to the winter peak.

10 Q. But generally speaking, is it still fair to
11 say that the company's Pacific division operations are a
12 winter peak load and the company's Utah division
13 operations are a summer peak load?

14 A. Let's see, I guess I would accept that
15 subject to check.

16 Q. Let me just ask you if you could accept this
17 subject to check. The company -- the structural
18 realignment proposal that I have been discussing was a
19 company -- a proposal by PacifiCorp to restructure
20 itself into six different electric companies, a
21 generation company, and a service company; is that
22 right?

23 A. Yes.

24 Q. And in this state, would you accept subject
25 to check that the company filed that, an application to

0195

1 seek to get Commission approval of that restructuring in
2 Docket UE-001878?

3 A. Yes, subject to check.

4 Q. Would you accept subject to your check that
5 in the direct testimony of Roger Weaver filed in May
6 2001, in that filing with the Commission he stated that:

7 Retail loads in the Western part of the
8 company's system are highest in the
9 winter, and retail loads in the eastern
10 part of the company's system are highest
11 in the summer, creating an opportunity
12 for cost sharing benefits from the
13 company's primarily based load units.

14 Would you accept that subject to check?

15 And just to make it easier on you, that was
16 on page 2 of his testimony beginning at line 22 through
17 the following page on line 4.

18 Is it also correct that the structural
19 realignment proposal, at least one of the motivating
20 factors for that was the what was the allocation
21 gridlock I guess, cost allocation gridlock, amongst the
22 various states in which Puget, Puget excuse me,
23 PacifiCorp operates?

24 A. That was one of the factors. The other
25 contributing factor was uncertainty around the company's

0196

1 ability to invest into resources to meet its obligations
2 to all the states and making sure that on a going
3 forward basis that it would have a chance for a
4 reasonable opportunity for cost recovery if it did make
5 those investments. So it was dealing with historical
6 allocations as well as trying to ensure that the states
7 were supportive of the company investing in the future.

8 Q. But the allocation methodology gridlock was
9 -- arose because the various states in the company op --
10 in which the company operates to the extent they apply
11 differing allocation methodologies the company was at
12 risk for a cost recovery shortfall?

13 A. Yes.

14 Q. And I believe in the application itself in
15 that structural realignment proposal in Docket
16 UE-001878, the company stated that the allocation, cost
17 allocations amongst the states, was "clearly broken";
18 would you accept that?

19 A. Yes.

20 Q. I want to run through some specific areas in
21 your rebuttal testimony, which is Exhibit 8, and I'm
22 looking at page 3, line 10. You say that:

23 The company has provided evidence and
24 stands ready to provide further evidence
25 if required to facilitate an adequate

0197

1 hearing.

2 Do you see that testimony?

3 A. Yes, I do.

4 Q. If you could flip to Exhibit 30, which is the
5 company's response to Staff Data Request 56, is it a
6 fair summary of your response that basically the
7 company's direct and rebuttal testimony that you filed
8 in this case is all of the evidence the company has and
9 believes necessary to provide in order to obtain the
10 relief it's requested in this case?

11 A. No, I wouldn't agree with that or
12 characterize it that way. The company has provided
13 evidence through its direct and rebuttal case. We have
14 also provided evidence to the parties through the data
15 request process and discussions with them as well as
16 being here today to provide any additional information
17 through our testimony and cross-examination to make sure
18 that there's a full showing and an adequate record for
19 the Commission.

20 Q. The discovery that was done was on the
21 company's -- the company's testimony and exhibits; is
22 that correct?

23 A. Yes.

24 Q. And that testimony and exhibits with respect
25 to a showing of a need for any kind of an emergency

0198

1 relief was again based on the Washington allocated
2 stand-alone basis?

3 A. Can you read that back or, Mr. Cedarbaum,
4 repeat it.

5 Q. I guess I -- well, let me point you to
6 Exhibit 30.

7 A. Okay.

8 Q. The last sentence at the end of that last,
9 excuse me, the second to last sentence at the end of
10 that sentence, the company indicates again, as you say,
11 through additional discovery, but then it says:

12 The company does not know of any
13 additional evidence it can provide at
14 this time.

15 Do you see that?

16 A. Yes, I see that.

17 Q. So beyond the direct testimony, beyond the
18 evidence that was presented to the Commission in this
19 actual testimony and exhibits and discovery that the
20 parties did on that evidence, there's nothing more the
21 company has to present?

22 A. No, I don't think we have anything more today
23 to bring forward. I think we have made the proper
24 showing, and we have brought the evidence necessary to
25 meet the standards which we're relying on in this case.

0199

1 Q. If you could turn to page 8 of your rebuttal
2 testimony and beginning at the line 11 and then through
3 -- I believe it's through all of page 10, you have a
4 discussion about alternative cost methodologies, and I
5 think the bottom line from your perspective is that the
6 -- whatever cost allocation method -- whatever cost
7 allocation methodology one uses has very little impact
8 on the financial results for Washington; is that right?

9 A. No, that's not correct. I would take issue I
10 guess with the word any cost allocation method, and what
11 I have testified to is that the review of any reasonable
12 cost allocation method. Clearly you could come up with
13 any cost allocation method that would be absurd and --

14 Q. I'm sorry, go ahead.

15 On page 8, line 21, you say:

16 In fact, however, the particular cost
17 allocation methodology has very little
18 impact on the company's indicated
19 financial results for Washington.

20 Do you see that?

21 A. Yes, I do.

22 Q. And so are you saying that that sentence is
23 limited only to the alternative cost allocation
24 methodologies that you discuss in your testimony?

25 A. The point that I'm making there is that

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1 because the financial situation of Washington in looking
2 at it on its jurisdictional results are so poor that
3 changing the allocation method within reasonable
4 tolerances would still not have a dramatic impact in
5 improving those allocations of cost. We would still be
6 in the financial situation we are with respect to the
7 Washington results.

8 Q. And my question was, was the -- is that
9 statement with reference to the cost al -- the
10 alternative cost allocation methodologies only that you
11 discuss in your testimony, which I believe there was
12 some discussion about PITA Accord methodology and then
13 the controlled area Idaho approach kind of methodology?

14 A. Yes.

15 Q. On page 10 of your rebuttal testimony at
16 lines -- at line 10, you say that using -- well,
17 actually, let me back up. Beginning at line 3 of that
18 page, you refer to an allocation methodology described
19 by Staff as potentially acceptable as being the control
20 area cost allocation methodology, which has an east and
21 west load control approach?

22 A. Yes.

23 Q. And then you say that that control area
24 method would result in about a .3% revenue requirement
25 increase as compared to Modified Accord?

0201

1 A. Yes.

2 Q. If you could look at Exhibit 29, specifically
3 the last page of that. This has the heading of
4 PacifiCorp MSP studies, revenue requirement with Gadsby,
5 Peters, and West Valley lease and post 2003 IRP
6 additions, and then it says 1999 load forecast; do you
7 see that?

8 A. Yes.

9 Q. And this is, as it indicates on the first
10 page, one of the analyses that the company has provided
11 in the MSP process that's currently ongoing.

12 A. Is there a question pending? I didn't hear
13 the question.

14 Q. I was asking you just to confirm that the
15 exhibit is an analysis the company had provided in
16 December of 2002 in the MSP meetings.

17 A. Yes, that's correct, although this is not
18 what I was relying on as the basis for my testimony.

19 Q. Well, looking at the extreme left-hand column
20 of the last page under the study column, there's an
21 indication of 47.3, accounting separation by control
22 area, Wyoming assigned to these control area. This is a
23 type of control area separation though, isn't it?

24 A. Yes, I believe it's one of the variations on
25 the study for the hybrid or Idaho method that was being

0202

1 reviewed.

2 Q. Then if we look across the page to the second
3 to last column that shows for Washington in 2003 that
4 study 47.3 would have a lower Washington revenue
5 requirement of \$5,355,000 as compared to Modified
6 Accord; is that right, that's the way we would read
7 this?

8 A. Yes.

9 Q. If you look down to the last row of this
10 table for the study that's labeled 52.3, fixed
11 assignment ownership model, is that essentially a direct
12 assignment cost methodology approach?

13 A. I would have to look at the specifics of what
14 that study assumed, but I believe it's basically the
15 disaggregation of assets or a fixed assignment or slice
16 of each asset as an ownership piece to each
17 jurisdiction.

18 Q. And that would show again under the
19 Washington column as compared to Modified Accord a
20 decrease in Washington revenue requirement of about \$24
21 1/2 Million?

22 A. Yes, that's what it shows, and I don't
23 believe that that would be an acceptable method to the
24 other states where you would have a, as an example of
25 Utah, a \$39 Million increase just as a result of the

0203

1 allocations. There's also, as I looked at the study
2 that I used, which is Exhibit 28, there's significantly
3 different assumptions in the load forecast that's used.
4 29 uses a '99 load forecast. What I based mine on was a
5 more current IRP load forecast. My analysis, which is
6 in the Exhibit 28, also includes hydro relicensing costs
7 and clean air costs, and 29 does not include those, and
8 that would have a significant impact, particularly on
9 the last item if you're doing a fixed ownership slice
10 and you're not assigning like the hydro relicensing cost
11 to hydro facilities, it would be assigned to the state
12 of Washington, you wouldn't have the proper matching of
13 costs there.

14 Q. So based on your testimony then, is it a fair
15 statement to make that the results of any of these
16 studies depends greatly on the assumptions that are used
17 in applying the studies?

18 A. I think that's correct with most studies and
19 forecasts. It depends on what you put into it and the
20 correctness of your assumptions.

21 Q. So if you were to look at Exhibit 28, as I
22 think you referenced, again it's the last page of the
23 exhibit, which is a confidential document, as you
24 indicated, this one says it's based on the IRP load
25 forecast, which was a more recent one than what was

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1 shown in Exhibit 29 or used in Exhibit 29. It also
2 includes hydro relicensing scenario and clean air
3 initiative scenario 1.

4 A. Yes.

5 Q. Are there other scenarios?

6 A. I believe there are. There was about 50 odd
7 studies that have been done in MSP looking at a number
8 of different methods and different scenarios within
9 those methodologies.

10 Q. So if we were to use a different scenario
11 than scenario 1, the results might also change?

12 A. Yes, I think that would be accurate to say.

13 Q. And at the bottom of this page it says, does
14 not include potential carbon tax costs; do you see that?

15 A. Yes.

16 Q. If those potential carbon tax costs were
17 included, that could also change the results?

18 A. Yes.

19 Q. If you could turn to page 9 of your rebuttal
20 testimony, again Exhibit 8, on lines 19 -- or I'm not on
21 the right page here. Yes, lines 19 through 20, you
22 state that, an analysis that was provided to Staff using
23 PITA Accord show that although the returns on equity are
24 slightly higher under PITA Accord, referring to PITA
25 Accord methodology. Then you have a comment about the

0205

1 company's earnings throughout the remainder of the rate
2 plan. Do you see that?

3 A. Yes.

4 Q. Is it correct that the slightly higher
5 returns that you're referring to are true for each
6 fiscal year beginning in 2002 through 2006 except for
7 2003, or would you accept that subject to your check?

8 A. Yeah, I would accept that subject to check.
9 That would largely be a result of Modified or the PITA
10 Accord method having a inherent flaw in its development,
11 and because of that all of the states agreed in
12 principle to abandon it back in about 1994 I believe,
13 and we would move to the Modified Accord method at that
14 time to resolve calculation problems. So it would
15 continue to increase and show benefits to Washington,
16 but they wouldn't be appropriate.

17 Q. Well, let me ask you to turn to Exhibit 3C,
18 which is your JKL-2, if you look at the confidential,
19 the second page of the exhibit. I guess it's really the
20 first page of the exhibit other than the cover page.
21 You have summary of return on equity for Washington in
22 which you utilized 100 basis point impact on adjusted
23 revenue requirement. Do you see that?

24 A. Yes.

25 Q. If we were to utilize that same adjustment

0206

1 with respect to the equity returns under PITA that we
2 referenced earlier, would you accept subject to your
3 check that the return in -- that the increase in returns
4 on equity using PITA would be approximately \$5 Million
5 annually for the same period of time that you show on
6 Exhibit 3C?

7 A. Can you -- how are you getting that number?

8 Q. I may not be completely sure. I guess I
9 would ask you to accept that subject to check, and then
10 we can work with you off the record to make sure that
11 you're happy with that. And if you're not, then your
12 counselor will let us know that you can't accept that
13 subject to check.

14 A. Yes, the calculation you would be going
15 through if you're looking at the difference between
16 Modified Accord and Accord would be to take the
17 difference that those two produce in return on equity.
18 So if the difference is 1%, it would result in fiscal
19 year '02 approximately \$4.3 million impact. 100 basis
20 points in Washington is just over \$4 Million.

21 Q. Again, I am -- I have to admit that I'm not
22 exactly sure how that -- my number was calculated.

23 A. Okay.

24 Q. So I would like you to accept it subject to
25 check.

0207

1 A. Yes, subject to check.

2 Q. We can do that over the break and correct the
3 record as necessary.

4 A. Sure.

5 Q. If you could turn to page 12 of your rebuttal
6 testimony. At the top of the page you reference some
7 periodic results of operations reports that are prepared
8 and submitted to the Commission. Do you see that?

9 A. Yes.

10 Q. Are you aware that the company has been late
11 in submitting some of those periodic reports to the
12 Commission?

13 A. Are there specific ones you're referring to?

14 Q. Let me ask you this, to accept -- will you
15 accept subject to check that Staff Data Request Number 1
16 to the company in this case said:

17 Please provide as required by WAC
18 480-100-208 monthly reports for the
19 quarters ended March 31, '01, June 30,
20 '01, 9-30-01, and 12-31-01, and 31-30 --
21 30 -- 3-31-02. These reports are in
22 arrears and necessary for the processing
23 of this case.

24 Would you accept that that was Staff Data
25 Request 1?

0208

1 A. Yes.

2 Q. So can you confirm at least with respect to
3 those particular reports that the company did not file
4 them on a timely basis?

5 A. That's correct. There was a misunderstanding
6 or issues around whether we are filing those on a total
7 company basis for the months or whether they actually
8 should be on a state specific basis on each month's
9 report. So we were filing our results of operation
10 pursuant to the Commission's rules on a semiannual basis
11 with a fully allocated demonstration.

12 Q. The data request that I just cited was made
13 to the company on October 4th, 2002; would you accept
14 that?

15 A. Subject to check.

16 Q. If you could turn to page 18 of your
17 testimony, your rebuttal testimony. I'm sorry, it's
18 page 17 at lines -- at line 20, you state that Mr. Elgin
19 -- and just to place some -- this into context, this has
20 to do with Section 11 of the stipulation and the
21 requirement for similar rate relief or the requirement
22 that the company is to file similar rate relief in its
23 two largest US retail jurisdictions. Do you see that?

24 A. Yes.

25 Q. So at line 20 and 21, you state that:

0209

1 Mr. Elgin suggests that the company's
2 required by the stipulation to use the
3 same test periods in its filings for
4 similar rate relief as the stipulation
5 says in Utah, Oregon, and Washington.

6 And my question is if you could point to me
7 where in Mr. Elgin's testimony he says that the same
8 test periods are necessary?

9 A. I'm not taking that as a quote. In reading
10 the testimony, that's the way it read to me, that it was
11 defining similar filings to mean that they needed to be
12 during the same time period using the same test periods
13 is how I understood the reading of the testimony.

14 Q. Okay. Is your testimony that you believe
15 Staff is requiring -- is interpreting the stipulation to
16 require the same test period or not?

17 A. I don't believe that they actually said that.
18 It was what the testimony suggested to me in my reading
19 of it.

20 Q. Would you accept subject to your check that
21 on page 10 of Mr. Elgin's direct testimony, line 11, 11
22 to 12, he says:

23 Moreover, similar if not identical test
24 periods between Washington, Utah, and
25 Oregon is necessary.

0210

1 A. Yes, I would accept that.

2 MR. CROMWELL: Thank you, those are all my
3 questions.

4 JUDGE MOSS: Thank you, Mr. Cedarbaum.

5 I think typically we take our questions from
6 the Bench before redirect to permit the witness's
7 counsel to have a full opportunity to offer questions.

8

9 E X A M I N A T I O N

10 BY CHAIRWOMAN SHOWALTER:

11 Q. Good afternoon. I want to get a better sense
12 of what the company thinks is essential to its case and
13 what it kind of threw in in addition. And I find much
14 of the discussion about the offsets and the interplay of
15 Section 9 and Section 11 to be confusing, because it's
16 not clear to me either on the company's part or the
17 parties' part what they think is essential versus what
18 was thrown in and then therefore is contested.

19 So with that prelude, let me ask first,
20 functionally, not legally under the rate plan, but
21 functionally is what you're asking for is in effect a
22 surcharge? And let me lay this out. If the current
23 rate base leads to a bill of \$100, aren't you asking for
24 an additional \$4.60 if it's structured over a certain
25 time period? And that in addition, there is, there

0211

1 exists a credit for Centralia or the merger. Is that
2 essentially what you're asking for?

3 A. Yes, I think that's basically it. There's
4 costs that we have incurred. Our shareholders, when you
5 look at the Washington operations, I think have borne to
6 the extent possible the amount of loss.

7 Q. You don't need to go into any explanation. I
8 just really want -- I really want you to stick to just
9 answering my questions.

10 A. Okay.

11 Q. This is because my train of thought can get
12 confounded very fast.

13 A. Yes. We are looking for the mechanism, which
14 would basically be a surcharge. We're not changing base
15 tariff rates. There are various mechanisms that we can
16 use then once we have the amount established to collect
17 that, whether it's through the credits that already
18 exist or through a separate surcharge.

19 Q. Well, there you have me confused again. I
20 don't see that you're asking to change the Centralia
21 credit. I realize that's what you're saying, but aren't
22 you really just asking for a surcharge? You are
23 pointing out that there is a credit that exists more or
24 less comparable to the surcharge you're asking for,
25 which conveniently would mean that they might cancel

0212

1 each other out, but you're not asking to reduce the
2 credit, are you?

3 A. Well, they, yeah, they would net out, and
4 what we would be doing is eliminating that credit rather
5 than establishing a separate surcharge. And
6 Mr. Griffith can go into the specific details of the
7 recovery mechanism and how that would work. But by
8 eliminating the credit would be the same as leaving that
9 credit and instituting a new surcharge. Trying to
10 simplify it --

11 Q. Yes, but I think in terms --

12 A. -- for the customer's bill.

13 Q. When you go to try to simplify it, you then
14 start to raise an issue that then causes a big reaction.
15 If you have a bill that has \$100 minus \$4.60 plus --
16 what would the amount be?

17 A. Well, if you add it back --

18 Q. \$5?

19 A. \$5 or --

20 Q. Let's say it's \$5. Well, isn't that what
21 you're really asking for? You're not really planning to
22 take away the \$4.60, you're adding on another charge?

23 A. Yes, this -- what the company is asking for
24 is relief, and we'll take it in whatever form possible,
25 but it's basically as you state.

0213

1 Q. For example, if there were no credit and the
2 \$4.60 deduction or credit were not there, you would be
3 asking for \$5 or so?

4 A. Yes, then there would need to be a separate
5 surcharge over and above the \$100 theoretical bill.

6 Q. All right. And I'm also trying to figure out
7 what difference it makes that there is or isn't a credit
8 that exists. It seems that in your testimony you
9 suggest, well, because they would cancel each other,
10 therefore there's no increase in the base rate, but I
11 don't follow the therefore. I follow that the consumer
12 might not see very much of a plus or minus on top of
13 that, on top of that base rate. But aren't we really
14 talking about separate, or you are talking about, the
15 company is talking about a separate charge independent
16 of the base rate and independent of the credit?

17 A. Yes, and the reason that we proposed this is
18 this is basically the preferred method that several of
19 our other states actually used and implemented. In Utah
20 as well as Idaho we used the merger credits, Centralia
21 credits, as a mean to offset the net impact that
22 customers saw.

23 Q. Right, it offsets the impact, but they aren't
24 functionally related to each other, are they?

25 A. That's correct.

0214

1 Q. All right. Then I would also like to ask you
2 about your reliance on Section 9 and potentially Section
3 11. If you look at Section -- and that is of the
4 stipulation, so that's Exhibit 2, page 6, Section 9.
5 Let's assume that you have the storm of the century, as
6 I just escaped from yesterday in Denver. So let's take
7 truly extraordinary costs. In your opinion, would
8 Section 9 allow you to petition to recover those costs?

9 A. Yes.

10 Q. And then in your opinion, would Section 9
11 allow the Commission to approve a treatment of those
12 costs?

13 A. Yes.

14 Q. All right. Now in this case you're asking
15 for this surcharge, or let's call them unusual costs.
16 And I don't really want to get into the dispute at the
17 moment as to whether they are or aren't unusual or how
18 they are calculated. So let's assume for the sake of
19 argument they're fairly unusual.

20 A. Okay.

21 Q. Is it the company's opinion that Section 9
22 all by itself would allow recovery of -- would allow the
23 company to petition for recovery of those charges, its
24 costs, those unusual costs?

25 A. I'm not sure I follow the question, all by

0215

1 itself, in the context of?

2 Q. All right. Let's say that there are two
3 possibilities for how you might be thinking you would
4 recover. One is under Section 9 because it simply
5 authorizes or does not preclude you to come in and
6 request an accounting treatment. The other would be
7 that Section 9 is not sufficient, you have to also go
8 over to Section 11 and meet that test. What is not
9 clear to me is whether the company is saying we're
10 entitled to it under Section 9 alone but in addition we
11 would also meet Section 11, or you are saying that
12 you've got to meet both Section 9 or pass the tests of
13 Section 9 and Section 11 and therefore that's why you're
14 demonstrating all of the PNB standards, for example?

15 A. Right, I think I've got your question. Under
16 Section 9 we would have the opportunity for filing
17 deferred accounting applications separate and apart from
18 a recovery mechanism. So we could petition for a
19 deferral of costs, and if we meet the FAS 71 standards
20 under GAAP to keep those on our books with the
21 probability of recovery, they would be addressed in the
22 next rate case.

23 In the context that we're addressing today is
24 that we have brought forth a deferral application, and
25 with that we want relief from those higher costs, and so

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1 we're also providing the information to support the rate
2 plan reopener under Section 11 showing that we have met
3 the standards of PNB so that we can, in fact, address
4 the recovery question today.

5 Q. All right. So that if all you were doing is
6 asking for a deferred accounting treatment pending the
7 next rate case, then it is your opinion you would only
8 need to rely on Section 9?

9 A. Yes, I believe that's the case.

10 Q. And that's what you refer to in your
11 rebuttal, maybe elsewhere as well, but that if that's
12 the route the Commission wants to go, then all you are
13 asking us to do is enter an accounting order at this
14 time and saying and we'll get around to what you
15 actually get in recovery and what may or may not be
16 prudent in the next rate case?

17 A. Well, that's part of it. The real issue is
18 the immediate need for cash flow, and to defer something
19 on the books until 2006 really doesn't help the
20 financial situation. Had all of our states followed
21 that route, said, yeah, you can defer the power costs
22 that you have experienced and you can come back after
23 2006, by then the company would have probably gone
24 through bankruptcy and not have been able to deal with
25 the financial crisis that it actually went through. By

0217

1 Utah providing an interim increase of \$70 Million
2 initially, and they're 40% of our jurisdiction or of our
3 business, that helped us stave off some of that, from
4 which Washington is benefiting. But we still have that
5 need for all of our states to contribute, and so the
6 real issue is addressing that cash flow situation and
7 getting recovery started today.

8 Q. All right. I didn't mean to imply that your
9 next rate case would necessarily be 2006. I understood
10 the alternative to be, grant us the ability to defer
11 some of these costs now pending figuring out the
12 recovery of them later in a rate case which would be
13 filed by the end of the year.

14 A. Yes, if the Commission deemed that the rate
15 plan should be reopened and a case were to be filed at
16 year end, then the costs could be deferred and recovery
17 sought for those as well as a reestablishment of all of
18 the tariff rates in the context of that case.

19 Q. All right. Now then turning to Section 11, I
20 am also confused by the term, rate plan reopening,
21 because I think there might be two ways to think of it.
22 One is we have an entire plan in front of us that the
23 Commission has approved, and anything in it, in fact all
24 of it we could reopen with the appropriate arguments and
25 justification, as with any settlement or order. But the

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1 other is this Section 11 which has a title called rate
2 plan reopener. However, if you just read it, I mean it
3 is part -- it is part of the rate plan itself, and it
4 doesn't actually say in it, this whole plan can only be
5 reopened under the following circumstances. It doesn't
6 actually talk about reopening. It simply says, a
7 general rate case filing during the rate plan period may
8 be made by the company in the event of the following.
9 So one way to read this is that you're sticking within
10 the terms of the rate plan if you can conform to 11.A
11 and B and file a general rate case as well. I don't
12 know if that's called reopening the rate plan or not,
13 because it's anticipated by the rate plan.

14 A. Yes.

15 Q. But I take it -- I recognize the parties are
16 using the term rate plan reopening as maybe distinct
17 from rate case settlement reopening. Maybe that's the
18 way to think of it.

19 A. The way I would interpret this was that were
20 there a decision made that the company should, in fact,
21 file a general rate case, that for purposes of the rate
22 plan we would go through and have an evidentiary
23 hearing, reset tariffs, and we would at that point
24 continue to abide by the remaining components of the
25 stipulation through its time period, with the exception

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1 that we did reopen, readdress the tariff levels and
2 reestablish those for the remainder of the rate plan
3 period, and the remaining items of the rate plan would
4 continue to be in effect, that were we to have the storm
5 of the century in say 2005, that the company could file
6 for deferral or to address those issues as extreme
7 situations come up.

8 Q. Well, since you have not filed a general rate
9 case yet, it's hard for me to see how you're fitting
10 under Section 11, which is why I asked you that original
11 question of whether you're really trying to buttress
12 your request for deferral relief under Section 9 with
13 the analogous arguments that exist under Section 11.

14 A. It's true we haven't filed a general rate
15 case, and we were trying to avoid that, because we see
16 that the rates that -- as they're currently set continue
17 to benefit our customers, and we want to live by the
18 terms of the agreement with some form of limited relief
19 that helps us get through the rate effective period or
20 the rate plan period. But we have met the terms and
21 conditions in showing that relief is warranted whether
22 it comes through the limited method that we have
23 described to cover the \$17 1/2 Million, or if the
24 Commission so deems, we'll actually reopen it and refile
25 an entire case with the Commission's authorization.

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1 Q. So if we were to go that route, would we be
2 allowing deferral of certain costs yet to be figured out
3 for May 2002 or June 2002 through May 31st, 2003, and
4 then potentially authorizing an interim rate increase at
5 the point at which we get a general rate case in front
6 of us? But the ultimate recovery in the prudence and
7 everything else would be determined in the general rate
8 case; is that how it would work?

9 A. Yes, I think there's several avenues that
10 could be followed at the Commission's discretion. We
11 have a deferral application in front of you. If that's
12 accepted, those costs could be deferred and addressed in
13 the context of the next general rate case. If you agree
14 with the company's information that there is a financial
15 situation and that there is -- I just lost my train of
16 thought. If you believe that the company has made its
17 case, then you could order an interim increase along
18 with that deferral to be trued up in the general rate
19 case, or you could just order that you want to address
20 everything, I guess not approve the deferral or an
21 interim, and just ask that the company file a general
22 rate case as soon as possible and review it all. I
23 think that is the way I see the bookends, if you will.

24 Q. I was a little confused about your testimony
25 of what happened in Oregon. I thought I heard you say

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1 you sought a deferral, you were granted a deferral, and
2 you were granted recovery in Oregon. Was that inside or
3 outside the context of a general rate case?

4 A. Let's see. To give you the context of
5 Oregon, in October of 2000 we filed a general rate case
6 seeking \$160 Million. Ultimately out of that we
7 received an increase of \$64 Million. Part of that
8 bridged the time period that we were experiencing the
9 power crisis. We received as a fallout from that there
10 was a in case UE-134 bridge agreement related to power
11 costs, and we also received a surcharge for the summer
12 2002 power costs of \$56 Million. So from the rate case
13 we were dealing with the different levels of power
14 costs, and we received a surcharge for the summer 2002
15 purchases. We also had filed a deferral case, UM-995,
16 which covered the period from November 2000 through
17 September 2001, covering the same similar time period
18 where we had the power crisis, the outage of our Hunter
19 power plant. And in that case, we began deferring
20 costs.

21 Ultimately we received approval for about
22 \$131 Million. We began receiving recovery of that
23 February of 2001. So it started deferring November of
24 2000, started receiving recovery as a surcharge
25 February, and that's capped by a 3% level by state law.

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1 And that was provided to us even before the Commission
2 had addressed the PCA and interim increase filing that
3 we had made. And so they denied our PCA in the interim
4 filing basically because those costs would in effect be
5 recovered through the deferral case and the \$22.8
6 Million that they had already granted. So it's not like
7 Oregon denied recovery because of the interim filing,
8 they had granted recovery through the deferred case and
9 had already put the mechanism in place to recover that.
10 They have since increased that from 3% to 6% to recover
11 the balance that they had approved of excess power
12 costs.

13 Q. It's too hard for me to follow all of that.

14 A. It's a lot of numbers.

15 Q. I'm sure it's in the record, but did Oregon
16 grant you any relief prior to your filing a general rate
17 case?

18 A. Yes, they began -- we got the general rate
19 increase September of 2001. We began receiving recovery
20 of our power costs through the surcharge in February of
21 2001, so well in advance of the outcome of the general
22 rate case.

23 Q. I'm not asking about the outcome, I'm asking
24 about the filing. So in other words, there was some
25 proceeding that was prior to the filing of a general

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1 rate case where you were granted relief prior to the
2 filing of your general rate case?

3 A. No.

4 Q. Well, that was my question. Did you get any
5 relief prior to the filing of a general rate case?

6 A. No.

7 Q. Okay. So to bring us back to the state of
8 Washington, as I understand it you are asking us to
9 grant relief prior to the filing of a new general rate
10 case and, in fact, within the rate plan period of an
11 older case?

12 A. Yes, and with the receipt of that relief, we
13 wouldn't file a case until the summer of 2005 with rates
14 in effect basically at the end of the period for 2000 to
15 be in effect in 2006. We would avoid that case and
16 receive some limited relief. If that doesn't work, then
17 we would request the rate plan be reopened and we file a
18 full case.

19 Q. All right. Back on Section 9, I was looking
20 at 9.A, you alluded to the fact that some of your
21 request for relief is, I believe, due to the Federal
22 Energy Regulatory Commission's changing regulations or
23 orders about wholesale power costs. Was that a correct
24 assumption on my part?

25 A. Yes.

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1 Q. All right. If let's say that was the only
2 reason you are coming in, that FERC changed its mind,
3 that had a drastic effect on you, and therefore you need
4 relief, if that were the basis under Section 9, would it
5 be like the ice storm? Could it be more or less self
6 executing, you would see Section 9 as allowing you to
7 request a deferred accounting and then have a proceeding
8 such as this one and recover a certain amount sort of
9 outside of a general rate case?

10 A. Yes, I would agree with that. If there's a
11 change in government action, whether it was FERC that
12 had a drastic impact on power costs or IRS or other
13 things that had similar impacts, we would have to
14 respond to that, I believe.

15 Q. And I think you stated that in general this
16 Section 9 type of activity you would think would be
17 limited not by the terms of Section 9 but by regulatory
18 practice to unusual or drastic situations. I don't mean
19 to pin you down to drastic, unexpected, unanticipated
20 situations.

21 A. Yes.

22 Q. Well, then I get back again to exactly why
23 you're looking at the PNB standards. They certainly are
24 a good test for a company in distress or gross
25 inequities, but I'm having a hard time seeing why that's

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1 the sole rationale you're turning to if you are saying
2 under Section 9 you could more or less independently
3 prove something.

4 A. I guess I understand what you're saying, and
5 as I was looking at the results, I mean clearly we have
6 had the impact of the power cost markets the summer of
7 2002. Of greater concern is looking at the company's
8 anticipated earnings and cash flow and investment
9 requirements over the next several years in the state of
10 Washington and under that trying to address those issues
11 through the review of the PNB standards. I mean that's
12 really the heart of the argument I guess is that we see
13 our earnings deteriorating, we see it difficult in the
14 state of Washington to continue on with the rate plan
15 given where our earnings are headed because of
16 anticipated situations, the power costs, pensions, and
17 things that everybody in the industry is reeling from.
18 And so when we look at what we are addressing in the
19 standards, we are trying to make sure that we could meet
20 the Section 11 thresholds.

21 Q. It strikes me that some of this comes down to
22 to what extent Section 11 constrains Section 9 versus to
23 what extent Section 9 is an escape route from the plan
24 when various people's arguments are pushed to the limit.
25 But I take it you would use -- that's why you are trying

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1 to say you kind of meet both; is that right?

2 A. Yes, I think we do meet both.

3 Q. You were asked a question about incentives,
4 and with respect to this time period that you're -- for
5 which you are requesting relief, won't the time period
6 be almost up by the time the Commission makes a decision
7 one way or the other as to what to do on your -- in
8 response to your petition?

9 A. I'm not sure I'm following that. Are you
10 saying that it would be until the end of 2005 before we
11 would receive an order?

12 Q. No, I think that you're -- that the period
13 for which you are seeking relief ends May 31st of this
14 year.

15 A. The deferral period itself, and the deferral
16 of costs if the Commission finds that it was prudent
17 would begin I believe June 1st of 2002 for the period
18 June 1 through May 31, 2003, so it was --

19 Q. So it's going to be too late basically for
20 incentives to happen if we -- should we grant something
21 like this, it will come after the time period with the
22 exception of maybe a month or two has run for which you
23 might respond to the incentives.

24 A. Well, I'm not sure that the company needs any
25 more incentive than it already has, given its financial

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1 situation and the earnings levels. We're doing
2 everything we can to improve our cost picture and
3 improve our results. And clearly in Washington, you
4 know, that there is an incentive inherent in that that
5 we need to improve our earnings and maintain our costs
6 and efficiencies and implement the transition plan.

7 Q. All right. There was another aspect that I'm
8 confused about, which is you are comparing, excuse me,
9 you are deriving your net power costs based on a figure
10 that you used when you originally came in for your rate
11 case; is that correct?

12 A. Yes.

13 Q. But you didn't get the rate increase that you
14 requested in that rate case.

15 A. That's correct.

16 Q. So is the figure that you used, was it \$489
17 Million?

18 A. 486, I believe.

19 Q. 486, by using that, are you being
20 conservative in the sense that had -- that the lower
21 rate that you actually got would bring that \$486 Million
22 down also? We don't know where, but something less,
23 let's just take a figure of \$300 Million.

24 A. Okay.

25 Q. So if the rate that we did approve reflects

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1 \$300 Million, just for the hypothetical, then that would
2 cause your net power cost to increase more; is that
3 right?

4 A. Yes, I think you've got it right, and let me
5 just repeat it to make sure that we're on the same page.
6 We used 486, which was the power cost in our last
7 filing. That would be the highest threshold assuming
8 nobody challenged power costs and there were no
9 adjustments to it or no additional changes on a total
10 company basis. So if that were approved from the case
11 and there was a finding on power costs, then we would be
12 measuring from that level to the current level, and the
13 difference would be the deferral. If that were set
14 lower or parties make the argument that we wouldn't have
15 got all of that and we got \$300 Million, then the amount
16 that you would be reviewing for deferral would be from
17 \$300 Million to \$600 Million or \$700 Million. So it
18 would increase the gap and the amount that would
19 actually be in the deferral and would significantly
20 increase that. So we have been -- Mr. Widmer in putting
21 his analysis together has been very conservative to make
22 sure that we are not seeking any more than we absolutely
23 need.

24 Q. All right. But all of this discussion begs
25 the question of the allocation and assumed rate of

0229

1 return and where growth should go, those particulars,
2 and I think I will ask other witnesses about those.

3 A. Okay.

4 CHAIRWOMAN SHOWALTER: Thank you.

5

6 E X A M I N A T I O N

7 BY COMMISSIONER HEMSTAD:

8 Q. First, as a hypothetical, assuming a company
9 in your circumstance but no rate plan in place at all
10 and all of those events that have occurred, what would
11 you be advising your company to do, file some kind of a
12 petition for accounting order, or would you be in here
13 filing a rate case?

14 A. If we had no rate plan in place, clearly I
15 believe we would have been filing rate cases. If we
16 were a stand alone company in Washington, we would have
17 been seeking immediate interim relief I believe similar
18 to what other Washington utilities actually did. We
19 were trying to --

20 Q. Well, let me stop you there. But you're not
21 a stand alone company, you're a multistate company.

22 A. That's right.

23 Q. And as I say, my hypothetical was all of your
24 circumstances, so would you be filing a rate case in
25 Washington, or would you be filing an accounting order

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1 request?

2 A. We would have filed a rate case, I believe.

3 Q. All right. So the best solution then would
4 be a rate case proceeding, but you're filing the
5 accounting order then because of the rate plan?

6 A. Yes, we have gone this route because we're
7 trying to live by the terms of the agreement, and it
8 provides I think benefits to customers because we're not
9 going to change their rates up to an allowed rate of
10 return, so there is a benefit to our customers there,
11 but.

12 Q. All right. But that assumes that all of the
13 other factors in your portfolio would justify what, an
14 additional rate increase over and above what you're
15 asking for here?

16 A. Yes, that's correct.

17 Q. And that could be a contested issue, of
18 course?

19 A. Yes, absolutely. If we were to file a
20 general rate case, then we would be reviewing all of the
21 costs, the allocation, the rate of return, the prudence
22 of plant, and have a full review of all of that, which
23 may significantly change the cost level over and above
24 what we have asked for here.

25 Q. I have followed with some interest your

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1 responses to the Chair's questions, and forgive me, it's
2 my density, not your answers that is the problem, and so
3 I'm reploting some of that same ground.

4 A. Sure.

5 Q. Am I correct first that the company's
6 preferred outcome of this proceeding would be that we
7 would approve recovery of the approximately \$17 Million
8 in your accounting petition and apply an immediate
9 surcharge for the recovery of that against Washington
10 rate payers and that there would be no short term
11 general rate case?

12 A. Yes, that would be the preferred method, and
13 as the discussion I had with the Chairwoman, the way we
14 saw as simplifying that process would have been the
15 netting of the sur credit and the surcharge.

16 Q. Sure, but I think we all agree it's a
17 surcharge?

18 A. Yes, that's correct.

19 Q. But the consequence is that the bills for
20 individual rate payers would rise?

21 A. Yes.

22 Q. Okay. But if there were problems with that
23 three step description that I just gave, then you would
24 be willing or you would suggest anyway that what, that
25 we would require you to proceed to file a general rate

0232

1 case now but that there would still be an immediate
2 approval of the \$17 Million and an immediate surcharge?

3 A. No. That is clearly one option. If the
4 Commission believes that we have made our case, it could
5 approve the deferral and a recovery mechanism for that
6 and request the company to file a general rate case, or
7 it could request that the company just come back with a
8 full general rate case to review all of it and I guess
9 foreseeably not deal with an immediate recovery
10 mechanism.

11 Q. I see. Then I didn't understand what may be
12 another alternative, or maybe I simply didn't understand
13 it, would be the approval of an accounting order with no
14 immediate surcharge but it would be simply carried until
15 the end of the five year rate plan, at which time you
16 would file a general rate case and the interest would be
17 accrued I think it was at approximately 8%?

18 A. Yes, that's one option with deferred
19 regulatory assets is that they're approved and the
20 actual recovery mechanisms or the recovery will be
21 addressed in the context of a future case.

22 Q. Right.

23 A. That doesn't resolve our issue of cash flow,
24 but it's certainly an option that the Commission I guess
25 could take up.

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1 Q. It wouldn't resolve your issue of --

2 (Discussion on the Bench.)

3 JUDGE MOSS: All right, we need to take a
4 break now so the Commissioners can conduct some other
5 business that's pressing, and so we're going to need to
6 break until 3:30, and we will resume at that point in
7 time.

8 (Recess taken.)

9 JUDGE MOSS: All right, let's be back on the
10 record, and Commissioner Hemstad was in the midst of his
11 questions.

12 BY COMMISSIONER HEMSTAD:

13 Q. I just really had one more question area.
14 You said you were concerned about cash flow, but were
15 the Commission to approve the deferral and order the
16 immediate surcharge, that addresses the cash flow issue?

17 A. Yes.

18 Q. If we were to approve the deferral but not
19 order an immediate surcharge and have it carried
20 forward, then that wouldn't help your cash flow, but it
21 would have the direct effect of immediately increasing
22 your earnings by that amount?

23 A. That's correct for our US operations. It
24 would be deferred from expense and put on the balance
25 sheet, so income statement would go up, but you are

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1 carrying a larger rate base and so, you know, there's a
2 tradeoff there.

3 COMMISSIONER HEMSTAD: That's all I have.

4

5 E X A M I N A T I O N

6 BY COMMISSIONER OSHIE:

7 Q. Mr. Larsen, as I understand it, the deferral
8 period that has been proposed by the company would end
9 on May 31st, 2003.

10 A. Yes.

11 Q. And there are approximately \$17 1/2 Million
12 of power costs that the company seeks to have deferred
13 through that period ending on the date I just stated.

14 A. That's correct. I think Mr. Widmer if there
15 is any final true up of that number can address it, but
16 it's roughly \$17 1/2 Million for that period.

17 Q. Now as the rate plan ends on December 31st,
18 2005, what does the company propose to do about the
19 period June through December 2003 and then the years
20 2004 and 2005? They're not before us today, only the
21 period 2002 through May 31st, 2003.

22 A. That's correct, and through the mechanism in
23 the proposal we have put forward, we're looking for
24 limited relief to establish the surcharge. And based on
25 that, we would move forward and keep our agreement as

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1 part of the rate plan through those remaining years. So
2 we would still be in an underearning situation, but
3 hopefully with the cash flow from the Commission's
4 relief, that would help that position. But if we just
5 got the interim or the recovery of the dollars that we
6 have asked for in the deferral, then there would be no
7 more action unless there is something that would cause
8 us to come before you again in this type of a hearing
9 with an unusual or extreme event that would trigger
10 Section 9 or 11 of the rate plan.

11 Q. What kind of unusual or extreme event do you
12 have in mind?

13 A. Well, under Section 9 of the stipulation, it
14 lists out the items that could trigger an event for a
15 general rate filing or if there were costs that we
16 wanted to defer under the language on page 7 of Section
17 9 but not seek recovery immediately or -- and in those
18 cases, it would be unusual situations such as the mother
19 of all ice storms or wind damage or, you know, a
20 significant event that was not anticipated.

21 Q. At the time that the rate plan was executed,
22 was the growth in the Utah load center for PacifiCorp
23 foreseen?

24 A. Utah was growing. I don't think we
25 understood the magnitude or could have forecasted the

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1 level that it had grown at that time.

2 Q. So the load growth in Utah then surprised the
3 company, at least to the level that it had grown?

4 A. Yeah, the load growth was significant there.

5 Q. Were the relicensing costs for the
6 hydroelectric projects that are either owned or operated
7 by PacifiCorp, were they foreseen at the time of the
8 execution of the rate plan?

9 A. Yes, the hydro costs were a little bit
10 different situation in that we know those are going to
11 occur. Those are future costs, and they -- we see the
12 hydro costs I think increasing in the investment there
13 as we get further out into this decade. I think around
14 2007, 2008, 2009 is when we start seeing a more
15 significant ramp up of hydro investment cost related to
16 the relicensing.

17 Q. Is the answer approximately the same or
18 generally the same for the Clean Air Act compliance
19 costs that are associated with your thermal plants?

20 A. Yes, I think roughly we are seeing the end of
21 the decade when we would possibly be facing clean air
22 initiatives or CO2 taxes.

23 Q. You may not be the right witness, and you can
24 certainly tell me that you are not, for this question,
25 but it has to do with the \$17 1/2 Million in power costs

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1 that are sought to be recovered through this matter, and
2 my question is whether the Gadsby plant in downtown Salt
3 Lake and the West Valley plant, the cost for those
4 facilities and whether they're included in the \$17 1/2
5 Million amount to be recovered.

6 A. I think probably the best thing would be is
7 to address that to Mr. Widmer. I think he is prepared
8 to address both of those plants.

9 COMMISSIONER OSHIE: Okay, thank you.

10 THE WITNESS: Thank you.

11 JUDGE MOSS: Mr. Larsen, I have a few
12 follow-up questions to clarify our record as well.

13 THE WITNESS: Yes.

14

15 E X A M I N A T I O N

16 BY JUDGE MOSS:

17 Q. I'm looking at your pre-filed direct
18 testimony, which is Exhibit 1C, and specifically I'm
19 looking at the bottom of page 9 and carrying over to the
20 top of page 10, which is on yellow paper indicating
21 there is some confidential information on that page that
22 I will stay away from. Looking at the last sentence on
23 page 9 that carries over:

24 The company's revised results of
25 operations used in the 1999 rate case

0238

1 reflect a 5.6% return on equity based on
2 a 1998 historical period forecasted for
3 June 2001.

4 Am I reading that sentence correctly in my
5 understanding that this is what the company analyzed and
6 expected to happen at the time it entered into the rate
7 plan? In other words, based on that test year, it ran
8 the analysis of what it would achieve under the rate
9 plan?

10 A. No, what that reflects, that was the results
11 of operations that were presented to the Commission in
12 the last rate case showing for that period of 1998 data
13 forecasted that we were earning 5.6%. It did not factor
14 into it the 3%, 3%, 1% increases that were agreed to
15 after our filing.

16 Q. Okay. So the 5.6 then is what you were --
17 without any rate relief in Docket Number UE-00, I'm
18 sorry, 991832, you would have earned 5.6 for that
19 indicated period?

20 A. Yes.

21 Q. And then you did enter into a stipulation.
22 Now as I recall, in that proceeding you had asked for
23 about an 11% or an 11 1/2% return on equity?

24 A. I believe that's correct.

25 Q. And then you entered into the rate plan

0239

1 stipulation that provided for about what, half of the
2 revenue that you had requested?

3 A. Let's see, over the period of a 7% increase,
4 I think that roughly translated to about \$12 Million
5 over the rate plan.

6 Q. And you had asked for about \$25 in that case?

7 A. Yes.

8 Q. So it was about half?

9 A. Yeah.

10 Q. All right. So you were, if I might put it
11 this way, you might say the implicit return in agreeing
12 to the rate plan was somewhere between 5.6 and 11?

13 A. Yes.

14 Q. And probably about midway?

15 A. Yes.

16 Q. So in the range of 7 or 8?

17 A. Yeah.

18 Q. Okay. Now reading on down that page 10, you
19 report that -- consider taking into account the -- some
20 of the increases that were provided under the rate plan.
21 You actually realized a 6.9% return for the period
22 ending March 31st, 2002?

23 A. Yes, that's a fully normalized result, and it
24 captures those rate increases in that for that time
25 period, and as my exhibits show, it continues to

0240

1 deteriorate from that point.

2 Q. Right, and I don't want to get into that
3 necessarily, but this is where we particularly need some
4 clarification. If we're looking at a 6.9% figure for
5 the period ended March 31, 2002, then you go on to
6 testify that that doesn't surprise you because of the
7 3%, 3%, 1%, it doesn't seem to me that it captures the
8 1%. Indeed, it seems to me that it captures only the
9 first 3% and three months of the second 3% since the
10 other one, the 1%, was not effective until January 2003,
11 which is after March 2002.

12 A. It does normalize into our result three
13 months of the 1%. We were doing -- because we were
14 forecasting, we identified what those increases would
15 be, and we have picked up three months of the 1% in our
16 result.

17 Q. What I'm trying to understand is how you do
18 that. If you're reporting results from a period that
19 ends March 31st, 2002, how do you pick up a rate
20 increase that doesn't kick in until sometime after that?
21 It may be an accounting matter that I don't understand.

22 A. Yeah, and that's the point I was -- I
23 responded to earlier. The 6.9% result for March 2002 is
24 the company's view going forward on a normalized basis
25 for 12 months, so it actually reflects pro forma

0241

1 adjustments reaching forward through March of 2003.

2 Q. 12 months.

3 A. So it picked up three months there. When the
4 Staff looks at our results, they typically look at what
5 we call a type 1 adjustment, which is March 2002 cut off
6 with no pro formas and only Commission ordered
7 adjustments. If you actually look at our result filed
8 with the Commission, it would show that the comparable
9 number, the 6.9, is actually 1.3%.

10 Q. Okay.

11 A. That would be what we had earned without
12 removing the excess power costs and without normalizing
13 in all of the increases.

14 Q. So you removed the \$98 Million in excess
15 power costs?

16 A. The impact of the excess power costs is not
17 included in there.

18 Q. That clarifies another point. You testified
19 in response to I believe one of Ms. Davison's questions
20 about the last authorized rate of return being 13.25%;
21 when was that?

22 A. I believe it was in 1986. I believe it was
23 -- the effective date was September 19th, 1986, in a
24 general rate case for 13.25%.

25 Q. And I think it's fair to say that you have

0242

1 testified effectively earlier that that's not a
2 particularly useful figure to us today being 17 years
3 old?

4 A. That's clearly not what we're seeking in our
5 other cases, and we just recently filed Oregon, and it's
6 not at that level.

7 Q. I will put it this way, that a lot of what
8 this case seems to be about is the company's desire to
9 improve its earnings situation in its Washington
10 jurisdiction, and I'm wondering how much of a boost in
11 terms of return on equity can you really achieve if you
12 are, in fact, granted the \$17 1/2 Million amortized in
13 the fashion that you have proposed; how many basis
14 points will that boost your annual return?

15 A. It would roughly be about 200 basis point
16 increase to our return.

17 Q. And that would carry through the end of the
18 rate plan period, wouldn't it, the way you have proposed
19 it?

20 A. Yes, I believe so.

21 Q. Okay, so it would be 200 per year, okay,
22 thank you.

23 I have some questions concerning the
24 relationship between Appendix A in your filing and
25 Exhibit I believe it's Exhibit 60. It was -- it's

0243

1 actually not one of Mr. Widmer's exhibits, it was
2 previously identified as Widmer Exhibit 3. Let me check
3 that number here. Yeah, it's now Exhibit Number 60.
4 Would it be better for me to defer those questions until
5 we have Mr. Widmer on the stand? The reason I'm raising
6 it with you is because you are sort of the major domo
7 here, and Appendix A then falls within your bailiwick,
8 so to speak. I can ask either you or him. I don't need
9 to ask both. This is concerning the accruals of alleged
10 or asserted excess power costs through the 12 month
11 period.

12 A. That would be a question for Mr. Widmer.

13 Q. Okay, I will save those questions for him.

14 A. Okay.

15 JUDGE MOSS: Okay, I think that's all I had.

16 I will to perhaps save time and be efficient
17 ask if any questions from the Bench have caused any of
18 you who have performed cross-examination to want to have
19 any quick follow up before we go to the redirect so that
20 Mr. Van Nostrand will have the ability to wrap this up
21 with a single round?

22 MR. CEDARBAUM: I have some questions, but I
23 -- so recross is not permitted?

24 JUDGE MOSS: Well, it may be necessary to do
25 recross, but if your questions are prompted by the

0244

1 questions from the Bench, then this would be the
2 appropriate time so that he could do his full redirect,
3 and then we just have to have one round of recross.
4 Otherwise we will be here forever.

5 MR. CEDARBAUM: Okay, that's fine. I have a
6 few questions based on the Bench's questions.

7 JUDGE MOSS: I think it's appropriate that
8 you ask those now.

9 MR. CEDARBAUM: Thank you.

10

11 C R O S S - E X A M I N A T I O N

12 BY MR. CEDARBAUM:

13 Q. Now, Mr. Larsen, you were asked by
14 Commissioner Oshie whether at the time the company
15 entered into the rate plan stipulation it could have --
16 it was -- it could have forecasted or known, anticipated
17 I guess may be the best word, the increase in Utah loads
18 that actually happened during the 2001/2002 time period;
19 do you recall that?

20 A. I recall the discussion. I thought it was
21 around the load growth at the time we entered into it in
22 2000.

23 Q. Okay. But the comparison was between the
24 time period that you entered into the -- well, let me
25 ask you this then.

0245

1 Was the load growth that was actually
2 experienced in Utah in the summer of 2002 unanticipated
3 at the time the company entered into the rate plan
4 stipulation?

5 A. I don't know the answer to that. I don't
6 believe I had looked at load forecasts in specific
7 detail for 2002 at that time period.

8 Q. I'm not going to ask you any detailed
9 questions, but it's more just for the record. Would you
10 agree that in Exhibit Number 77 that's been marked for
11 identification the company provided copies of its retail
12 load forecasts by jurisdiction made by the company
13 contemporaneous with a 1999 rate case? Admittedly I
14 think this is a cross exhibit of Mr. Widmer, but you got
15 into the subject matter as well with these questions by
16 Commissioner Oshie, so are you aware of that exhibit?

17 A. I have not reviewed that exhibit.

18 Q. Are you then aware or not that in Exhibit
19 Number 78 for identification the company provided copies
20 of all retail load forecasts by jurisdiction used for
21 purposes of Mr. Widmer's Exhibit, it's MTW-4; are you
22 aware of that?

23 A. No, I didn't prepare that specific data
24 response.

25 Q. But we could compare or one could compare the

0246

1 forecasts that the company had at the time of the 1999
2 rate case that was provided in Exhibit 77 with what the
3 company has provided in Exhibit 78 as actuals for April
4 2002 through 2000 -- April 2002 through August 2002; is
5 that right?

6 A. Yeah, I think you could make that comparison
7 of that data that is consistent.

8 Q. I just have a few questions for you about the
9 rate plan stipulation, Exhibit 2. On Section 11, it's
10 correct, isn't it, that there's nothing in Section 11
11 that requires the company to get any permission from
12 this Commission or agreement from any of the parties to
13 the stipulation to file the general rate case filing
14 that is allowed in Section 11; is that correct?

15 A. Yes, I think that's correct.

16 Q. So the company could have made a general rate
17 case filing instead of what it did file in this
18 proceeding; is that right?

19 A. Yes, it could have.

20 Q. And it can still do that, assuming that it
21 complies with this provision of the stipulation?

22 A. Yes, it could.

23 Q. On Section 9.A of the stipulation, is it
24 correct that nowhere in your rebuttal testimony or in
25 your direct testimony did you discuss that specific

0247

1 provision of the stipulation; is that right?

2 A. That's correct.

3 Q. Now in Exhibit 9 -- in Section 9.A, the word
4 governmental, are you interpreting that word to mean any
5 action taken by a regulatory body?

6 A. Any impact taken by or any action taken by a
7 government agency.

8 Q. So if any agency that somehow has -- some --
9 have -- would have an impact on the costs of the company
10 in any of the company's jurisdictions or on the federal
11 level, whether -- I mean local, municipal, state,
12 anything, if that has an impact on the company, the
13 company can make a tariff filing to pass through any
14 increased costs under Section 9.A?

15 A. I don't believe it precludes that if there
16 are actions taken that the company could bring those
17 before the Commission, and the Commission could approve
18 based on the company's request a tariff change or a rate
19 change as a result of that.

20 Q. So --

21 A. That's not the full -- what I'm relying on in
22 Section 9 is the fact that we can file for deferrals.
23 As I mentioned in my initial discussion, I'm not sure to
24 what extent the FERC action would fall under that, but
25 our power costs were impacted by their decision on the

0248

1 rate cap, and that's impacted our overall deferral which
2 we are requesting.

3 Q. But, you know, quite honestly, Mr. Larsen,
4 today was the first time I have heard any mention of 9.A
5 as being a justification potentially for what the
6 company filed, so I'm trying to inquire into what you
7 think it means.

8 A. I'm not justifying our request under Section
9 9.A. I'm justifying it under the provision to file a
10 deferral for costs and also through Section 11, meeting
11 the standards that are outlined there.

12 Q. But if the Commission were to apply the rate
13 plan as stated and find that your filing violates the
14 last paragraph of Section 9 referring to deferred
15 accounting and violates Section 11, are you saying that
16 your filing could still be approved under Section 9.A?

17 A. I'm not relying on it being approved under
18 just Section 9.A.

19 Q. That's not my question. My question is, do
20 you interpret this to include your filing?

21 A. No, I'm relying on the last paragraph of
22 Section 9 as the basis for our request.

23 Q. That's still not an answer to my question.
24 I'm not asking you what you're relying upon. I'm asking
25 you how -- do you interpret 9.A to encompass what you

0249

1 filed even though you may not be relying upon it?

2 MR. VAN NOSTRAND: Your Honor, I'm going to
3 object to further questions. It seems like Mr. Larsen
4 has made it clear what the company is proceeding under.
5 He obviously doesn't have any control over what the
6 Commission may do interpreting this document. The
7 Commission obviously can interpret this document for
8 itself. Mr. Larsen can say what the company is
9 proceeding under, and it's not 9.A.

10 MR. CEDARBAUM: Well, I guess I would move to
11 strike all of Mr. Larsen's testimony in which he
12 interprets this agreement. I mean we're here to talk
13 about what this agreement means, and I think I'm
14 entitled to find out what he thinks 9.A means, not
15 whether he relied upon it or not.

16 JUDGE MOSS: I'm going to allow the question.

17 BY MR. CEDARBAUM:

18 Q. Do you recall the question?

19 A. Will you read it again.

20 Q. Well, let me just restate it.

21 A. Or restate it.

22 Q. Do you believe the company's filing would be
23 allowed under Section 9.A?

24 A. I'm going to answer no to that, because we're
25 not relying on that. We don't want to make our case

0250

1 around that. We are relying on the deferral, so no.

2 MR. CEDARBAUM: Thank you, those are all my
3 questions.

4 JUDGE MOSS: Anybody else have anything?

5 MS. DAVISON: One.

6 JUDGE MOSS: Yes, follow Mr. Cedarbaum's
7 example and be brief, please.

8 MS. DAVISON: Thank you. I just have -- I
9 will even be more brief.

10

11 C R O S S - E X A M I N A T I O N

12 BY MS. DAVISON:

13 Q. Mr. Larsen, in response to some questions
14 from Chairwoman Showalter, you stated that the company
15 is, in fact, asking for a surcharge; is that correct?

16 A. Yes.

17 Q. But isn't it true that if you turn to page
18 21, lines 13 through 15, that you make it clear that --

19 A. What document?

20 Q. I'm sorry, of your direct testimony, which is
21 Exhibit 1C.

22 CHAIRWOMAN SHOWALTER: What page?

23 Q. I am on page 21, which I hope is the right
24 page, and my lines 13 through 15, which you answer the
25 question what your proposal is if the Centralia merger

0251

1 credits do not cover the deferred power costs. Isn't it
2 correct that your direct testimony is that you are not
3 seeking a surcharge, but rather if there is a balance
4 remaining that you would simply seek to recover that in
5 your next general rate case; isn't that correct?

6 A. No, that's not correct. If you look at line
7 beginning on line 17, by applying the deferred amounts
8 against the Centralia and merger credits, a change in
9 general rates is avoided, thus preserving the essential
10 feature of the rate plan. So by applying the deferred
11 amounts, whether you're doing that as a netting or
12 you're doing it through a surcharge, and on the bills
13 you have separate line item as a surcharge and then the
14 merger credits remain on the bill, the effect is the
15 same.

16 Q. But isn't it correct that you are in effect
17 asking the Commission to offset your deferred power
18 costs with the Centralia merger credits, and if there's
19 any remaining money in the deferred power costs that you
20 state that you will recover those in the next general
21 rate case?

22 A. If the difference is insignificant. If not,
23 we would actually seek a surcharge, which we were -- at
24 the time we thought we would actually be going to
25 hearings, we thought that they would net out and there

0252

1 would be a small difference, but if the balance was
2 substantially different that we would need to seek a
3 surcharge.

4 Q. And can you point to where in your testimony
5 or rebuttal testimony you ask the Commission for a
6 surcharge?

7 JUDGE MOSS: And I'm going to help out a
8 little bit here, because you're looking at the old
9 testimony again. In the revised version, the answer
10 that you referred to in your first question,
11 Ms. Davison, is actually on page 22 beginning at line 1,
12 and so the follow-up testimony that you're now asking
13 about is also on page 22 beginning with the question on
14 line 5. And the response there is the one in which
15 Mr. Larsen indicates the company would propose a
16 surcharge.

17 Q. And isn't it correct though that reading the
18 next sentence that you specifically state that you are
19 not asking for a surcharge now?

20 A. Yeah, our specific proposal was what we
21 consider a netting of a surcharge and a sur credit, so
22 there wouldn't actually be an impact to the customers.
23 But I think the effect is the same, that we have a
24 credit on the bills, you would have a surcharge. We
25 don't propose that because of the mechanism seemed to

0253

1 work in the other states, and that was the method that
2 they proposed to do. But if the Commission clearly sees
3 a need to show those separately on the bills so that the
4 customers can specifically see the different components,
5 I think I guess the Commission would have the latitude
6 to order that.

7 MS. DAVISON: Thank you.

8 JUDGE MOSS: Okay, finished?

9 MS. DAVISON: I'm done.

10 JUDGE MOSS: All right, Mr. Cromwell?

11 MR. CROMWELL: (Shaking head.)

12 JUDGE MOSS: All right, good, then let's get
13 on with our redirect, Mr. Van Nostrand.

14 MR. VAN NOSTRAND: Thank you, Your Honor.

15 Before we start, Mr. Cedarbaum, did you want
16 to cover that issue of the additional subject to check.

17 MR. CEDARBAUM: Thank you.

18 Your Honor, during my original
19 cross-examination of Mr. Larsen, I had asked him to
20 accept subject to check increased returns on equity
21 using the PITA Accord method. That would translate to
22 approximately \$5 Million annually from the fiscal year
23 2002 through fiscal year 2006 period, but in my question
24 I excepted the fiscal year 2003 from that. The question
25 that I think he will accept subject to check would now

0254

1 include fiscal year 2003 to my original question. And I
2 believe he has accepted that subject to check, and there
3 has been work off line between Staff and the company to
4 double check those numbers.

5 THE WITNESS: Yes.

6 MR. CEDARBAUM: So if there's a problem with
7 this revised subject to check, we will find out about
8 it.

9 JUDGE MOSS: All right.

10 THE WITNESS: I would accept that subject to
11 check.

12 JUDGE MOSS: Very well.

13

14 R E D I R E C T E X A M I N A T I O N

15 BY MR. VAN NOSTRAND:

16 Q. Mr. Larsen, let's start with some questions
17 from the Bench. I guess specifically Judge Moss asked a
18 number of questions about the company's actual adjusted
19 and normalized results of operation for the 12 months
20 ended March 2002; do you recall that?

21 A. Yes, I do.

22 Q. And the issue being the difference between
23 the 6.9% figure shown there versus numbers that might be
24 produced with type 1, type 2, and type 3 adjustments?

25 A. Yes, that's correct.

0255

1 MR. VAN NOSTRAND: Your Honor, if I could
2 distribute a redirect exhibit?

3 JUDGE MOSS: Sure.

4 And we'll mark this for identification as
5 Number 46.

6 BY MR. VAN NOSTRAND:

7 Q. Mr. Larsen, do you have before you what's
8 been marked for identification as Exhibit 46?

9 A. Yes, I do.

10 Q. And do you recognize this document as the
11 company's results of operations for the 12 months ended
12 March 2002?

13 A. Yes.

14 Q. And if you could refer to line 60 on that
15 document at the far right-hand column, the 6.9%, is that
16 the number that was referred to in your discussion with
17 Judge Moss?

18 A. Yes, and in my testimony as well.

19 CHAIRWOMAN SHOWALTER: Mr. Van Nostrand, I
20 couldn't hear you.

21 MR. VAN NOSTRAND: Oh, I'm sorry. We're
22 talking about line 60 of that document, the return on
23 equity line, the far right-hand column, the 6.9% figure
24 being the one that Mr. Larsen referred to earlier in his
25 testimony both to Judge Moss and in his pre-filed

0256

1 testimony.

2 BY MR. VAN NOSTRAND:

3 Q. And working your way back across, I believe
4 you mentioned that the results with just type 1
5 adjustments produced a far different figure?

6 A. Yes, 1.3% in column 3, line 60.

7 Q. And what do the type 1 adjustments consist
8 of?

9 A. There's a description there on the bottom,
10 type 1 adjustments involve normalization of out of
11 period adjustments, unusual items that occur during the
12 test period, and if there are adjustments we have been
13 ordered by Commissions, we typically include those as
14 type 1.

15 Q. And the increase that the company has
16 received under the rate plan you indicated had been
17 normalized in and annualized on this document?

18 A. Yes.

19 Q. And how is that shown?

20 A. If you look at line 2 on general business
21 revenues covering the impacts of the rate plan showing
22 the increases to revenue, retail revenue, primarily for
23 the type 2 there's a \$4,172,000 which would capture the
24 full annualization of the type or the 3% that we
25 received, and then the \$481,000 would have been

0257

1 reflecting the three months that we captured of the 1%
2 increase.

3 Q. Of these various figures for return on
4 equity, how would you compare them in terms of their
5 probative value, so to speak?

6 A. Well, looking at the 6.892%, that's assuming
7 that power costs are normal, that there is no additional
8 impact of volatile markets, and that the company is
9 stable and moving forward, and yet it would ignore the
10 impacts that we have had up to that point. And looking
11 at the type 1 result in the column 3, 1.3%, my
12 understanding is that would typically be what the Staff
13 would be looking at as it -- in terms of its review on
14 whether the company is in line with the Commission's
15 authorized rate of return and whether it's appropriate
16 to take action or not.

17 MR. VAN NOSTRAND: Your Honor, I move the
18 admission of Exhibit 46.

19 JUDGE MOSS: Hearing no objection, it will be
20 admitted as marked.

21 BY MR. VAN NOSTRAND:

22 Q. Mr. Larsen, I would like to turn quickly to a
23 line of questions from Chairwoman Showalter regarding
24 incentives and sharing. I think I need to clarify the
25 issue a bit. Do you recall -- first of all, would you

0258

1 agree that given the deferral period we're seeking and
2 the day it is now that incentives really aren't an issue
3 for purposes of this deferral filing?

4 A. Yes.

5 Q. And in terms of how the whole
6 incentive/sharing issue arose, do you recall the
7 discussion from the UM-995 order in Oregon?

8 A. Yes, generally.

9 Q. And did the company in that case propose a
10 sharing mechanism means of providing an incentive to
11 hold down costs?

12 A. I'm trying to recall in the initial filing if
13 there was a proposal. Generally when we are looking at
14 the impact of the excess power costs and in our
15 discussions with the states, we are basically looking at
16 an 80/20 split in a sharing with them on those costs.

17 Q. And that's roughly what the company proposed
18 in Oregon, wasn't it?

19 A. I believe so.

20 Q. And I think the point was made that the
21 company also proposed sharing in Wyoming, correct?

22 A. Yes.

23 Q. And could you clarify why the -- why there's
24 no proposal for sharing with respect to the deferred
25 proposal in this case?

0259

1 A. Yes, as we look at the power cost impact on
2 the company, the company absorbed \$98 Million of that
3 impact, and then to take what we have proposed as a
4 deferral of \$17 1/2 Million and say that that should be
5 shared, we feel that the shareholders have already
6 carried a significant portion of that.

7 Just to give you some perspective, we had as
8 a total company over \$1 Billion of excess power costs.
9 We were able to defer in various states approximately
10 \$430 Million roughly, and since that time it's been
11 reduced because of Wyoming's actions, and we have
12 roughly recovered around \$250 Million, thereabouts, of
13 that. So when you look at the total scheme of things,
14 over \$1 Billion in power costs and we're only recovering
15 a fraction of that when you look at the actual sharing
16 for the costs we incurred.

17 Q. I would like to turn briefly to the issue of
18 allocations. I believe your testimony discusses three
19 different approaches. One is the Modified Accord,
20 correct?

21 A. Yes.

22 Q. And you also discuss, I believe you discussed
23 with Mr. Cedarbaum the PITA Accord method?

24 A. Yes.

25 Q. And I believe you indicated that there was a

0260

1 fatal flaw inherent in the PITA method. Could you
2 describe that?

3 A. Yes. The PITA Accord method basically made
4 an adjustment to the demand and energy factors for each
5 state and removed from those an adjustment for hydro,
6 recognizing the hydro benefits for the Pacific states,
7 thereby reducing their load factor, which
8 correspondingly would shift costs away from them into
9 the other states or conversely reduce the amount of
10 costs that were allocated to their state. We found that
11 through that mechanism, the hydro endowment was actually
12 growing. Because as we added plant, regardless if it
13 was hydro or generation, office tables, computers, it
14 was increasing the hydro endowment for the Pacific
15 states. And that wasn't the intent, that the purchase
16 of a computer would create hydro benefits and lower
17 costs for the northwestern jurisdictions.

18 So we revised that, put in a new mechanism in
19 the Modified Accord, which was the primary change
20 between the two, which established around \$17 Million
21 for the Pacific division states of hydro benefit that
22 was assigned to them in the form of a reduced cost of
23 fuel, recognizing if you have hydro, you're not having
24 to burn coal, so you had lower fuel costs in the Pacific
25 states, higher fuel costs in the Utah division states.

0261

1 Q. And why did you discuss the PITA method in
2 this case? I mean is it -- I mean let me start over on
3 that.

4 Did you prepare an analysis of the company's
5 filing as if the PITA method were in place?

6 A. The PITA Accord or Modified?

7 Q. The PITA Accord.

8 A. I don't recall specifically doing that other
9 than to identify -- let's see.

10 Q. Well, the numbers in Mr. Cedarbaum's --

11 A. It has been a long day.

12 Q. The numbers that Mr. Cedarbaum was asking you
13 about taking subject to check, wasn't that the company's
14 calculation of the PITA Accord method?

15 A. Yes, it was, in response to one of their
16 requests.

17 Q. So that analysis was performed in response to
18 a Staff data request?

19 A. Yes.

20 Q. Now you also discussed in your testimony at
21 page 10 another cost allocation methodology, which was
22 referred to as the Idaho approach from the multistate
23 process; is that correct?

24 A. Yes.

25 Q. And I believe you indicate there that the

0262

1 increase -- it would result in a slight revenue
2 requirement increase of about 0.3% as compared to
3 Modified Accord, correct?

4 A. Yes, that's correct.

5 Q. If we can turn to Exhibit 28, which is the
6 response to Staff Data Request 55, is this the document
7 upon which you relied in making that statement in your
8 testimony?

9 A. Let's see, yes, it is.

10 Q. And could you identify where the 0.3% figure
11 appears on that exhibit?

12 A. In column -- in Washington 2003, the very
13 bottom row, .3%.

14 Q. And what does the -- how do we interpret this
15 document in terms of what the .3% compares to?

16 JUDGE MOSS: Mr. Van Nostrand, let me just
17 stop you. We are in a confidential document here, and
18 you're beginning to ask him about some specific data on
19 that document, so I would just caution you with respect
20 to waiving your confidentiality right, which is fine
21 with me if you wish to do that.

22 MR. VAN NOSTRAND: I was just asking him for,
23 not the number, but just the methodology for what the
24 0.3% compares to.

25 JUDGE MOSS: Okay.

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1 A. It is a comparison of the result of the 47.3
2 Exchange 2 method, which is a variation, I believe, of
3 the hybrid or Idaho method as compared to the Modified
4 Accord results, which are the 2.3 study. So you can
5 show -- you can see in the darkened box that for
6 Modified Accord all of it is zero. The other studies
7 are calculated off of that as a percentage change.

8 BY MR. VAN NOSTRAND:

9 Q. Now in choosing to present certain allocation
10 methodologies, how did you decide which ones were
11 reasonable and should be discussed in your testimony?

12 A. Well, in looking at what's reasonable would
13 be the studies that the states are currently looking at
14 and they think are possibilities as a ultimate
15 resolution of MSP. Now it has come down to the two
16 methods right now. I believe the Idaho or the hybrid
17 method has strong support from most of the states, and
18 if you have most of the states agreeing, I think that
19 they -- that you could determine that that is a
20 reasonable method, because it has the likelihood of
21 being accepted.

22 Q. And if we can -- and one of the -- if we
23 compare the results on this Exhibit 28 with the very
24 next exhibit on Exhibit 29, can you explain why the
25 analysis shown on Exhibit 28 is the reasonable one?

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1 A. Looking at the results primarily for the
2 study 52.3, which shows for 2003 that there would be an
3 11% change from the current allocation method, Modified
4 Accord that most of the states have been relying upon,
5 and correspondingly significant variances in the other
6 states going the opposite direction, and I don't believe
7 that that range of change would have much likelihood of
8 success or be reasonable from the other states'
9 perspective.

10 Q. And in terms of the underlying assumptions
11 for these studies, Exhibit 28 versus 29, would you say
12 that the assumptions in Exhibit 28 are more reasonable?

13 A. Well, yes, I guess they would be more
14 reasonable. You do have a more current load forecast.
15 As I mentioned previously, with each study there are
16 different variations that you're looking at, and
17 depending on the issue you're trying to resolve, whether
18 you're including hydro relicensing or clean air into
19 that calculation and the components overall in the
20 studies, so I felt that this one was more reasonable,
21 and that's why I relied upon it for the basis of my
22 testimony.

23 Q. I would like to refer briefly to some
24 questions from Mr. Cromwell regarding the transition
25 plan savings. Is it your testimony that to the extent

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1 the company has achieved transition plan savings that
2 these are reflected in the financial data that you are
3 filing in this case?

4 A. Yes, both in terms of transition plan
5 initiatives that have actually been implemented and were
6 achieving those cost savings, that those would be
7 reflected in our actual results. Mr. McDougal in his
8 analysis as well has factored in the forecasts that the
9 company has, which contemplates achieving a level of
10 merger savings, and those would be reflected in our
11 forecasted numbers as well that were in my exhibit.

12 Q. In light of this record of achieving these
13 transition plan savings, how can you reconcile that with
14 the actual financial and the projected financial results
15 that the company is projecting, is presenting in this
16 case?

17 A. Well, although we have worked hard to achieve
18 our transition plan and meet our obligations under that,
19 we have experienced significant costs that weren't
20 anticipated. We have had a huge increase in our pension
21 costs as a result of the fallout of the market. We have
22 had a run up of insurance costs. In some places we
23 can't even get insurance coverage any more for pieces of
24 our business, in the T&D area primarily. We have also
25 seen a run up of security costs. All of those issues

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1 are creating a situation that although we have achieved
2 the merger transition cost savings, they're being offset
3 by a run up of costs in other areas.

4 Q. I want to touch on a line of questioning from
5 Ms. Davison regarding the PNB standards being used as a
6 backstop to improve earnings up to the allowed rate of
7 return. Do you recall that line of questioning?

8 A. Yes, I do.

9 Q. And I believe in response to questions from
10 Judge Moss, you were able to quantify the impact of the
11 company's return on equity in the event the company got
12 the relief it was seeking in this case, correct?

13 A. Yes. As part of our discussion, I said there
14 was roughly a 200 basis point increase that would come
15 as a result of the company's filing. And on my Exhibit
16 JKL-2, which is Exhibit 3, if you were to take each of
17 those years and roughly include 200 basis points FY03
18 we're in the 6% range dropping down to about 4% with the
19 results of what we're asking for here.

20 Q. And how would you characterize those returns
21 as compared to a reasonable return on equity?

22 A. I think it's clearly inferior and wouldn't
23 allow us if we were a stand-alone company to really
24 attract the capital that's necessary to continue to
25 invest in our system.

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1 Q. One of the issues that's come up in cross and
2 under a few of these financial exhibits is the company
3 being on track to achieve this \$1 Billion target for
4 profits. Do you recall those documents and that line of
5 questioning?

6 A. Yes, I do.

7 Q. Could you explain what all is assumed in that
8 effort to achieve \$1 Billion in profits?

9 A. Sure. The company has some very hard stretch
10 targets for itself, and it's working to achieve those in
11 order to try and get back to a reasonable rate of return
12 on a system-wide basis. As I mentioned with our current
13 year results for FY03, if we achieve those, we roughly
14 will get to about a 6.3% return on equity.

15 Over the next two years, we will continue to
16 be filing rate cases. We just filed one in Oregon for
17 \$57.9 Million. We have notified Utah that we will be
18 filing one this spring. And we will be filing another
19 in Wyoming. So there will be active pursuit of getting
20 our rates of return back to where they need to be. So
21 in order to get to the \$1 Billion, we have several
22 rounds of rate cases in all of our states that we have
23 to achieve.

24 We need to resolve the MSP issue and fill an
25 allocation hole that we have. And we have to address

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1 certain areas of disallowances or lag in regulatory lag.
2 And also because in particularly in Washington because
3 we don't have the opportunity with the current rate plan
4 to get to an 11% or 11 1/4%, 11 1/2% rate of return, we
5 would actually have to get above that rate in other
6 states in order to fill the deficiency from Washington.

7 So by 2005, on average for total company if
8 we can earn 11%, we can meet our regulatory objectives,
9 get all the cases filed, then we will be able to
10 actually earn our authorized rate of return.

11 Q. Another point raised by Ms. Davison in her
12 cross-examination had to do with the company's filing
13 for interim relief or its PCA filing in Oregon in March
14 2001; do you recall that?

15 A. Yes.

16 Q. And she made a point regarding the size of
17 the company's filing; do you recall that?

18 A. Yes.

19 Q. Could you explain the context for the
20 previous rate proceedings that had gone underway in
21 Oregon that would put that March 1 filing in context?

22 A. Can you be more specific?

23 Q. At the time the company filed for the interim
24 case, the PCA filing that Ms. Davison referred to, did
25 the company already have in place a deferral order?

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1 A. Yes, the company had already filed for a
2 deferral November 1st of 2000 and had received approval
3 to begin deferral and amortization of that in February.
4 We began actually recovering the \$22.8 Million prior to
5 the March time line for the PCA application.

6 Q. So is it fair to say that the company's
7 filing for the interim increase and the PCA application
8 was built upon the pleadings and relief already on file
9 in front of the Oregon commission?

10 A. I think that would probably be fair to say.

11 Q. I would like to review some of the
12 cross-examination exhibits, Mr. Larsen. If you could
13 refer to Exhibit 45, which had to do with an excerpt
14 from the company's 10-K regarding credit facilities.

15 A. Yes.

16 Q. And Mr. Cedarbaum directed you to the portion
17 which refers to a line of credit, correct?

18 A. Yes.

19 Q. And a weighted average return of about 2.2%?

20 A. Yes.

21 Q. In your view, would the company have access
22 to a line of credit such as this based on the financial
23 results on a Washington only basis?

24 A. Certainly not. First of all, this is a
25 commercial paper rate, very short-term rate, 2.2%, and I

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1 don't believe that would be available to the company.
2 And my concern would be that based on our results, the
3 company would basically be at a BB or below rating, and
4 it clearly wouldn't be able to get long-term financing
5 at a cost effective rate if it could get recovery, get a
6 -- get financing if at all. If you look at the
7 difference between a investment grade and a junk bond
8 grade at a BB or below, the spread in the interest rates
9 is fairly significant, I believe.

10 MR. VAN NOSTRAND: Your Honor, may I
11 distribute another redirect exhibit?

12 JUDGE MOSS: Yes.

13 We'll mark this as 47.

14 BY MR. VAN NOSTRAND:

15 Q. Mr. Larsen, do you have before you what's
16 been marked for identification as Exhibit 47?

17 A. Yes.

18 Q. Can you please describe what this document
19 shows?

20 A. Yes, this was a document from our treasury
21 department on the current issuances of various security
22 or debt instruments from utilities listed down the left
23 side. As you can see, PacifiCorp is listed there in the
24 upper tier and the issuance and the amount of the
25 issuance, offer date and so forth. And as you move

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1 across, there's a column spread, 03/13/03. And what
2 that is is the spread differential between a ten year
3 government security and the company's.

4 And looking down, if you go down towards the
5 bottom beginning with Allegheny Energy, which is a BB
6 rated and the spread there on what they're having to pay
7 for interest compared to the companies based on our
8 current credit quality, 1,134 basis points. You look at
9 the other companies listed there below, which are
10 basically junk bond status of B's, C, CCC, all ranging
11 well into the high levels of interest rate. And on a
12 lot of those, they're not even -- the bid price isn't
13 even at 100, they're being marked down.

14 So if the company were to experience a BB
15 rating, whether it was a stand alone Washington utility
16 or if the other companies or the other states hadn't
17 stepped up to meet the immediate financial crisis that
18 we had at the start of the power crisis, there would
19 have been a significant impact to the company's
20 financing and its costs. And once you get downgraded,
21 it's a lot harder to recover from that and get back to a
22 good rating.

23 MR. VAN NOSTRAND: Your Honor, I move the
24 admission of Exhibit 47.

25 MS. DAVISON: I object, Your Honor.

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1 MR. CEDARBAUM: I object as well.

2 JUDGE MOSS: Go ahead, Ms. Davison, you were
3 first.

4 MS. DAVISON: Your Honor, I object on the
5 basis that I'm not sure who prepared this document. It
6 appears to be a document that is from a much larger
7 report, and I believe that if the company desired to put
8 such evidence in its case, it could easily have done so
9 in its direct or rebuttal exhibits. And I'm not sure
10 that there is much relevancy to this document in any
11 event. So I guess I have three levels of objections.

12 MR. CEDARBAUM: My objections are relevance,
13 and I believe this calls for speculation as well. It's
14 already been well established the company does not
15 finance on a Washington stand alone basis. It finances
16 on a total company basis, and on a total company basis,
17 the company's credit rating is A based on this witness's
18 testimony. What the company may or may not have been
19 able to finance at what cost if it were BB or junk bond
20 status is irrelevant to this proceeding also. So that's
21 the relevance objection plus speculation that there's no
22 foundation whatsoever as to that -- whether PacifiCorp
23 or the total company if it were BB rated or lower would
24 incur these costs.

25 JUDGE MOSS: All right.

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1 MR. VAN NOSTRAND: Your Honor, this exhibit
2 is not intended to indicate whether PacifiCorp would
3 incur these costs. Mr. Larsen's testimony shows that
4 applying the S&P rating criteria, the company would have
5 a BB rating. This exhibit establishes the higher
6 borrowing costs associated with a BB rating. It
7 illustrates the point made in his testimony that the
8 borrowing costs of the company would be higher had the
9 company -- were the company borrowing on the basis of
10 the Washington only financial statistics. And this
11 provides evidence of the spread between the A rating
12 that the company does have on a company-wide basis
13 versus the BB rating that they would have if they were
14 rated on a Washington only basis. It's relevant, and it
15 shows a stark quantification of the higher borrowing
16 costs.

17 MR. CEDARBAUM: Your Honor, it's not reality.

18 JUDGE MOSS: Okay, let's stop, I'm ready to
19 rule. I don't find the exhibit --

20 (Discussion on the Bench.)

21 JUDGE MOSS: Okay, the Commission has
22 considered the objections to the admission of what has
23 been marked for identification as Exhibit 47, and it
24 will not be admitted.

25

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1 BY MR. VAN NOSTRAND:

2 Q. Mr. Larsen, I have one other line of
3 questioning I would like to discuss with you. If you
4 could turn to Exhibit 36, which is a response to a Staff
5 data request.

6 A. Yes.

7 Q. And this response discusses the company's
8 filing in Utah for interim relief, correct?

9 A. Let's see, yes.

10 Q. And included in that is the testimony of
11 Karen Clark, who was the CFO at the time?

12 A. Yes.

13 Q. Why was it appropriate for the company to
14 file for interim relief in Utah on a total company basis
15 rather than a Utah only basis?

16 A. Well, for several reasons. The company was
17 meeting the Utah criteria, but more importantly, none of
18 the states had yet responded to the immediate financial
19 situation that we were looking at. There had been no
20 interim relief granted in any state. So as you looked
21 at a total company basis versus a Utah basis, the answer
22 would basically be the same.

23 In this proceeding, you can't make that same
24 distinguishment, because the other states have, in fact,
25 provided interim relief or rate cases or power cost

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1 recovery. And therefore, in order to look at the impact
2 for Washington, you separate Washington out and look at
3 its results.

4 The other criteria is that filing in Utah,
5 40% of our business, we needed to get interim relief.
6 If we didn't get it in Utah, regardless if we got some
7 in the other states, I think we would still have a
8 financial problem, which could have impacted our credit
9 quality.

10 MR. VAN NOSTRAND: Thank you, Mr. Larsen.

11 I have no further questions on redirect, Your
12 Honor.

13 JUDGE MOSS: Okay, is there any compelling
14 need for further examination, or can we let this witness
15 get off the stand?

16 MR. CEDARBAUM: I have just two short lines
17 of questions based on the redirect.

18 JUDGE MOSS: All right.

19

20 R E C R O S S - E X A M I N A T I O N

21 BY MR. CEDARBAUM:

22 Q. Mr. Larsen, just referring you to Exhibit 46,
23 which was an exhibit Mr. Van Nostrand distributed on
24 redirect, is this one of the periodic results of
25 operations reports or a part of that report but the

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1 company -- that you refer to on page 12 of your rebuttal
2 testimony?

3 A. Yes.

4 Q. And at the top, it says in the title there's
5 reference to Modified Accord. I take it that means
6 these are results of operations utilizing the Modified
7 Accord cost allocation methodology?

8 A. Yes.

9 Q. You also indicated that it was your
10 understanding that Staff looks at the numbers in column
11 3 to gauge the company's financial performance; is that
12 right?

13 A. Yes.

14 Q. If you could please turn to Exhibit 34, I'm
15 sorry, 34, and this was a Staff response to a company
16 data request that was admitted earlier. And this
17 essentially describes Staff's -- how Staff utilizes the
18 periodic results of operations reports provided by the
19 company; is that right?

20 A. Yes, identifying basically that they don't
21 look at the type 2 and type 3 adjustments, which are
22 annualization or forecasting, and that they just look at
23 the items that would be part of the Commission basis
24 report.

25 Q. Where do you see the reference to type 2 and

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1 3?

2 A. I'm using that language which corresponds I
3 guess to what -- the items that you're identifying here.
4 Annualizing price changes, that would be a type 2
5 adjustment, for example.

6 Q. And in Part B of this response, Staff
7 explains how its evaluation of this company given the
8 rate plan would not be the same as another company not
9 subject to a rate plan; do you see that?

10 A. Yes, I see that.

11 Q. And just finally on Exhibit 36, which you
12 were just asked about, Part B of the response provides
13 Staff's explanation of how the company could seek rate
14 relief under the stipulation without the cost allocation
15 issue that's been raised in this case being resolved; is
16 that right?

17 A. I believe that's the Staff's interpretation.

18 MR. CEDARBAUM: Thank you.

19 Those are all my questions.

20 JUDGE MOSS: Okay.

21 Anything further from the Bench?

22 MR. VAN NOSTRAND: Your Honor, I do have some
23 redirect based on that additional line of cross.

24 JUDGE MOSS: All right, well, we can't go on
25 endlessly here, and, Ms. Davison, I'm going to allow you

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1 to have just a couple of questions.

2 MS. DAVISON: Certainly.

3 JUDGE MOSS: And then we'll allow brief
4 redirect.

5 MS. DAVISON: Thank you, Your Honor, I will
6 be very brief.

7

8 R E C R O S S - E X A M I N A T I O N

9 BY MS. DAVISON:

10 Q. Mr. Larsen, you have spent a great deal of
11 time this afternoon and this morning talking about
12 hypothetically where the company would stand if you
13 looked at it on a Washington basis alone. Do you recall
14 generally that you have been speculating about that
15 today?

16 A. Yes.

17 Q. And isn't it correct that you have been
18 looking at the revenue side of things in terms of your
19 hypothetical answers with regard to say your bond
20 rating, your ability to finance, those sorts of issues?

21 A. I'm not just looking at revenue alone. It
22 takes into account a number of different factors as we
23 look at the forecast of interest coverage or net income,
24 cash flow. It takes into account expenses as well.

25 Q. But isn't it correct that if PacifiCorp

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1 Washington were a stand-alone company that on the cost
2 side of the equation your costs would look very
3 different than it does as a six state jurisdictional
4 company?

5 A. No, I don't believe so. In order to get to
6 that point, if we were to move forward with our SRP
7 proposal, which would basically establish that, there
8 would have to be some reasonable agreement of the states
9 in how to split up the assets and come to that. I mean
10 it's nothing different than what's going through the MSP
11 process right now, and results we're looking at shows
12 that plus or minus 2% of where the revenue requirements
13 are currently at.

14 Q. So it's your testimony that your costs in
15 Utah are roughly equivalent to your costs of operating
16 in Washington?

17 A. No, I didn't testify to that.

18 Q. You testified earlier that your system ROE
19 for 2002 was 6.3%; is that correct?

20 A. That would roughly be the normalized rate of
21 return on equity I believe for the FY03 period.

22 Q. And isn't it correct that in Washington you
23 earned 6.9% for 2002?

24 A. On a fully normalized basis.

25 MS. DAVISON: Thank you, I don't have any

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1 other questions.

2 A. For 2002.

3 JUDGE MOSS: Just briefly, Mr. Van Nostrand.

4 MR. VAN NOSTRAND: Thank you, Your Honor.

5

6 R E D I R E C T E X A M I N A T I O N

7 BY MR. VAN NOSTRAND:

8 Q. Mr. Larsen, if you could turn to Exhibit 34
9 which Mr. Cedarbaum referred you to regarding the
10 results of operation reports.

11 A. Yes.

12 Q. Do you see the response on Section A that
13 indicates that prior reports often did not fully comply
14 with the Commission's rules; do you see that?

15 A. Yes.

16 Q. Is it true, does the Staff frequently
17 acknowledge and comment on a company's results of
18 operations filings once they are received by the
19 Commission?

20 MR. CEDARBAUM: Your Honor, I will object
21 unless the question asks for his personal knowledge. I
22 just don't know from that question whether that was the
23 assumption.

24 JUDGE MOSS: I think it follows that it would
25 logically be on his personal knowledge.

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1 So to your knowledge, Mr. Larsen, is that
2 something that occurs?

3 A. No, it's not. Since about 1994, I actively
4 managed the revenue requirements section, was
5 responsible for preparing the results of operations
6 report. And in that time frame, I only received one
7 response from the Washington Staff, which was actually
8 some comments from Mr. Tom Schooley relative to our semi
9 annual report, 12 months ending December 31, 1996, which
10 he identifies a couple of adjustments which he didn't
11 agree with that should have been in that report.

12 BY MR. VAN NOSTRAND:

13 Q. Is there anything in those comments that
14 would indicate that Staff had an issue with the cost
15 allocation methodology used by the company in its
16 results of operations filing?

17 A. No.

18 MR. VAN NOSTRAND: Thank you, I have nothing
19 further, Your Honor.

20 JUDGE MOSS: All right, well, Mr. Larsen, it
21 has turned out to be a somewhat longer day for you on
22 the stand than was anticipated from the basis of our
23 pre-hearing conference discussion, but we thank you very
24 much for your patience and your testimony today.

25 THE WITNESS: Thank you.

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1 JUDGE MOSS: And, of course, we do keep our
2 witnesses subject to recall throughout the course of the
3 hearing, but we can release you from the stand.

4 THE WITNESS: Thank you.

5 (Discussion on the Bench.)

6 JUDGE MOSS: Well, I believe that we will go
7 ahead and recess for the day. I did mention to the
8 parties off the record that we would start tomorrow
9 morning at 9:00 a.m., so let's all be here then, and I
10 believe we will take up with Mr. McDougal at that point.
11 Thank you very much.

12 (Hearing adjourned at 5:00 p.m.)

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