BEFORE THE WASHINGTON UTILITIES AND

TRANSPORTATION COMMISSION

Petition of PacifiCorp d/b/a Pacific Power & Light Company for an Accounting Order Authorizing Deferral of Excess Net Power Costs.	Docket No. UE-020417 Volume IV Pages 283-440

A hearing in the above matter was held on March 21, 2003, at 9:05 a.m., at 1300 Evergreen Park Drive Southwest, Olympia, Washington, before Administrative Law Judge DENNIS MOSS, Chairwoman MARILYN SHOWALTER, Commissioner RICHARD HEMSTAD and Commissioner PATRICK OSHIE.

The parties were present as follows:

PACIFICORP, by James Van Nostrand and Kendall J. Fisher, Attorneys at Law, Stoel Rives, 600 University Street, Suite 3600, Seattle, Washington 98101.

INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES, by Melinda Davison, Attorney at Law, Davison Van Cleve, 1000 S.W. Broadway, Portland, Oregon, 97205.

PUBLIC COUNSEL, by Robert Cromwell, Assistant Attorney General, 900 Fourth Avenue, Suite 2000, Seattle, Washington, 98164.

THE COMMISSION, by Robert Cedarbaum, Assistant Attorney General, 1400 S. Evergreen Park Drive, S.W., P.O. Box 40128, Olympia, Washington 98504-0128.

Barbara L. Nelson, CCR
Court Reporter

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Whereupon,

STEVEN R. McDOUGAL,

having been first duly sworn by Judge Moss, was called as a witness herein and was examined and testified as follows:

JUDGE MOSS: Thank you. Please be seated.

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

BY MS. FISHER:

Q. Good morning.

A. Good morning.

Q. Would you state your name and spell it for the record?

A. My name is Steven R. McDougal, S-t-e-v-e-n R. M-c-D-o-u-g-a-l.

Q. And could you turn your microphone on?

CHAIRWOMAN SHOWALTER: How about you, too?

JUDGE MOSS: Just pull it up.

MS. FISHER: Is it not on? Okay. Thank you.

THE WITNESS: We tried to learn from Jeff.

Q. All right. We take his lead. You have before you your direct testimony, which has been marked in this case as Exhibit 50-C; is that correct?

A. Yes.

Q. And if I were to ask you the questions set forth in your testimony, would your answers be the same as set forth therein?
A. Yes.
Q. You also have before you your exhibits to that testimony, which have been marked as Exhibits 51-C through 56-C?
A. Correct.
Q. And were those exhibits prepared by you or under your direction and control?
A. Yes, they were.
Q. Do you have any additions or corrections to any of your testimony or exhibits?
A. No, I do not.
MS. FISHER: I don't know whether this has taken place, but I'd like to move for the admission of Exhibits 50-C through 56-C.
JUDGE MOSS: Okay. Any objections? Hearing none, those will be admitted as marked.
MS. FISHER: Mr. McDougal is available for cross-examination at this time.
JUDGE MOSS: All right. Now, let's see. I guess we'll follow our same order. Ms. Davison, that would put your first.
MS. DAVISON: Thank you.

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

BY MS. DAVISON:

Q. Good morning --

A. Good morning.

Q. -- Mr. McDougal. Do you consider the Washington financial forecasts in this case to be of rate case quality?

A. The forecasts themselves are projections, and therefore I wouldn't have them in the same quality as a rate case, necessarily.

Q. What test period did you use for preparing Exhibit 51-C?

A. Exhibit 51-C is based upon our company's planning projections allocated to the state of Washington for the forecasted years. We also provided two sets of historical numbers for comparative purposes, the 1999 general rate case filing made by the company and also our adjusted fiscal year '02 results, which would be the results of operations for March 31st, 2002, as filed with the Commission.

Q. So if I understand the rest of your chart, still looking at Exhibit 51-C, for your fiscal year '03, '04, '05 and '06, you're not actually using a test period with known and measurable changes; is that correct?

A. You are correct.

Q. Is it correct that for fiscal year '02, that -- on Exhibit 51-C, that you assume 645 million in power costs?

A. I would have to review that exhibit, but subject to check, yes.

Q. Isn't it true that in the Oregon rate case that was filed on March 18th, 2003, that the company is using a normalized power cost figure of $610 million?

A. I would have to defer that to Mr. Widmer in testifying.

Q. Is it correct that for fiscal years '03, '04, '05 and '06, that you are relying on budget projections?

A. Yes, it is.

Q. Can you describe the major area of cost increases that are reflected in your Exhibit 51-C?

A. As indicated by Mr. Larsen yesterday, there's a variety of areas with increasing costs. We have increasing pension costs, insurance costs, security costs all related to 9-11, we also have maintenance and other costs which are increasing, so there's a variety of cost changes which are reflected.

Q. Would you include Utah load growth as one of your major areas of cost?

A. I am not or have not done any studies to indicate what the significance of that is in the projections, so I don't know if I would classify it as major or not, because a lot of the load growth, other than in the net power cost area, which Mr. Widmer could address, are directly assigned to the state of Utah. All of the distribution and other infrastructure costs are specifically assigned to a state. So I am not sure what impact that would have on these results.

Q. Why did you use fiscal year '06 on your chart?

A. We used fiscal year '06 because the rate plan goes through the end of '05. Fiscal year '06 is the period starting on April 1st of 2005, and extending it till March 31st of 2006.

Q. Do you know what percentage Washington represents of PacifiCorp's overall system?

A. Exactly how would you measure the percentage? We have energy, we have a variety of different factors that could be used to say what

percentage customers and a whole bunch of different allocation factors, so I don't know exactly how you would prefer that measurement to take place.
Q. Well, let me refer to a number that appeared in the Oregon rate case that was just filed on Tuesday. Oregon had previously been 33 percent of PacifiCorp's overall system, and in this rate case filing, Oregon now represents 28 percent. Are you familiar with that?
A. I am not.
Q. Is it correct that in 1999, Washington was roughly ten percent of PacifiCorp's system?
A. I do not have any of the details related to that case, so I -- it would probably be within reason, but I would not know for sure the exact percentage.
Q. And you may not know the answer to this question, but currently, today, based on the new rate case filings that you've prepared for the other states, is Washington now approximately eight percent of PacifiCorp's overall system?
A. I'm not sure exactly where you're getting the eight percent from, but let me explain a couple of things that could impact the percentages that you're referring to without knowing the specific

source. If you are referring to specific allocation factors, then you have a variety of things that can impact it, depending on whether you're looking at energy, capacity or number of customers.

In addition, if you're looking at factors, there's been shifts within factors because of changes in interruptible customers to firm, and a lot of our factors are based upon firm customers. So as we change those, they do change factors and they may not reflect completely load growth. But as I said, I don't have your specific numbers; therefore, I can't comment specifically on them.

Q. Is it fair to say that the Washington system, as compared to your other states, has not been growing?

A. I don't have anything that would allow me to make that conclusion, no.

MS. DAVISON: Okay. Thank you. I don't have any further questions.

JUDGE MOSS: Mr. Cromwell.

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

BY MR. CROMWELL:

Q. Mr. McDougal, good morning. My name's Robert Cromwell.

A. Good morning.

Q. I'm with the Attorney General's office. Were you here for Mr. Larsen's cross-examination yesterday?

A. Yes, I was.

Q. And did you hear his reference to the transition plan and that you were perhaps a better witness to ask questions regarding that?

A. Specifically about whether the transition plan costs are in these numbers, yes.

Q. And are there transition plan savings reflected in either your testimony or the exhibits you prepared?

A. Yes, as stated in my testimony, one of the items that we have included is the transition plan savings. By default, as mentioned by Mr. Larsen, any savings are in the actual results and, as indicated on page six of my testimony, the expense forecast from the company's planning group include the impact of the transition plan on projected expenses.

Q. Could you direct me to which exhibit attached to your testimony contains the allocation to Washington of transition plan savings achieved by the company for the deferral period in question today?

A. The transition plan in the actual results have already occurred. In the forecasted, when our planning department is budgeting for future years, they ask all of the individual departments to give them their expected expenses after transition plan savings are achieved. Therefore, there is no specific line that indicates the transition plan savings within my testimony. Instead, they are included in the original numbers.

Q. What original numbers are you referring to?

A. The numbers that we started with from our planning group, because all of our business units and functional areas forecast their cost considering and taking into account any transition savings they anticipate.

Q. Am I correct that the exhibits to your testimony, which have been admitted as 51 through 56-C, then, do not contain a specific identifiable period reflective of the deferral period that the company's requesting here, where a line item identifying transition plan savings is reflected; is that correct?

A. That is correct, the transition plan savings are not a specific line item. We did not list before, then savings, then after; instead, we just listed the amount that would be after.

MR. CROMWELL: Thank you. No further questions.

JUDGE MOSS: Mr. Cedarbaum.

MR. CEDARBAUM: Thank you.

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

BY MR. CEDARBAUM:

Q. Good morning, Mr. McDougal.

A. Good morning.

MR. CEDARBAUM: Your Honor, just as a procedural matter, the questions I have of Mr. McDougal relate to Exhibits 76, 77, 78 and 80-C, which were marked as cross exhibits of Mr. Widmer. I understand that Mr. McDougal's the proper witness for those, so I would offer those four exhibits at this time.

MS. FISHER: No objection.

JUDGE MOSS: Okay. There being no objection, Numbers 76, 77, 78 and 80-C are admitted as marked.

Q. Mr. McDougal, I have a few questions for you, which will require you to look back and forth between Exhibits 76, 77 and 78, so if you could pull those out in front of you, please, and just tell me when you're ready.

A. Okay. You may proceed.

Q. Yesterday there were some questions about company load forecasts at the time that it entered into the stipulation in the last rate case and what happened in reality in later years with respect to energy sales in Utah and Washington.

Looking at Exhibit 77, this was a company response to Staff Data Request 16, in which load -- retail load forecasts by jurisdiction were provided to Staff and which the company had at the time of the 1999 rate case; is that right?

A. That is correct.

Q. If you would look at -- the page that I'd like you to look at is the sixth page of the exhibit, including the cover page. What I have in front of me is a page called -- entitled PacifiCorp Model Peak in Energy By State. Do you have that?

A. Yes, I do.

Q. That shows that in annual energy in 2001, for Utah, was forecasted to be 19,926 gigawatt hours; is that right?

A. That is correct.

Q. If you were to look at the second to last page of Exhibit 76, is it correct or would you accept, subject to your check, that in 2001, the company's actual annual energy in Utah was 20,071 gigawatt hours? And that would be calculated by adding up the first 12 numbers in the column titled UT-UPL.

A. That is correct, but the two numbers are not completely comparable.

Q. Why is that?

A. If you notice on your first exhibit, where you see the Utah, 19 --

CHAIRWOMAN SHOWALTER: Can you identify the exhibit?

THE WITNESS: Back on Exhibit 77, the sixth page, I believe is the number, if you look at Utah, you will see the 19,926, which is the firm energy component. You will also see an interruptible, which is the third column from the right, indicating interruptible customers -- it appears that some people don't have the exhibit yet -- of 2,351.

Q. So you're saying if we wanted to get the full picture in the forecast, we would just add those two numbers for Utah?

A. Right.

Q. Okay.

A. Because most of the interruptible customers have now been moved to firm customers.

Q. Okay. And the number that I asked you subject to check in Exhibit 76, does that include the interruptible component or is it just the firm?

A. It includes the interruptible component.

Q. So if we were to add the nineteen-nine and the twenty-three numbers that you just indicated, the company, it appears, just by my quick calculation, forecasted in 1999 for 2001 a higher number than the actual for Utah?

A. That appears to be correct, based upon these documents.

Q. Looking -- still staying on that same page in Exhibit 77, but the line for 2002 in Utah would be the 19,889 gigawatt hours, plus the same 2,351 gigawatt hours for the forecast that was done in 1999 for the year 2002?

A. That is correct.

Q. If you could look at Exhibit 78, the last page of that exhibit, and what I'd like you to look at is, in fiscal year 2002, about in the middle of the page, there's a line item for Utah.

A. Correct.

Q. And the number 19 and a half -- I guess that's 19 and a half gigawatt hours appears. Do you see that?

0300

A. Yes, I do.

Q. And that includes as -- according to the first page of the exhibit, it's a combination of a forecast plus actuals for April through August 2002?

A. Yes, it is.

Q. And so that combination forecast and actual number for 2002 also would be less than what was forecasted -- well, I guess I should ask you to clarify first. Is the 19 and a half thousand gigawatt hours, does that include the interruptible component?

A. It does, but, again, within our modeling functions, numbers come from a variety of different areas and a variety of different sources. The two numbers again are not completely comparable.

Your reasoning is if we look at Exhibit 78, 78 represents our retail sales at the customer meters where it indicates the individual states. Then, down below, in the bottom three lines of the retail sales area, you see what's called PCW losses, PCEW losses and PCEU losses. Those are the losses that are necessary to add back in order to get those sales at the input level.

Your Exhibit 77 that you're referring to already is at input versus the 19,547 number, which is at sales, so you would have to gross that up by the losses in order to get completely comparable numbers.

Q. So when you say gross up, you mean I should take the 19 and a half plus the three numbers that are in parentheses for the three items?

A. The percentage of that related to each state, yes.

Q. Okay.

A. And the losses are not, in this document, allocated to individual states. Instead, they are grouped by our different transmission areas.

Q. Do you know what that -- if we were to do that analysis that you just referenced, do you know what, then, the total retail load would be for Utah?

A. I do not. Utah losses would be a portion of what is referred to as the PCEU losses, but not the entire amount, therefore.

Q. Is there some percentage factor that you would apply to those numbers to get a ballpark estimate or maybe something better than a ballpark estimate as to what was attributable to Utah?

A. I am not aware of what the ballpark estimate is for Utah. Overall, as a total company, we have percentages ranging from -- you know, they're generally in the low teens to tens, sometimes nine percent, and I'm not sure where Utah falls in that range.

Q. If you could look at Exhibit 80-C.

A. Okay.

Q. This exhibit was prepared by you; is that correct? Your response to the data request?

A. Yes, it is.

Q. And this relates to the Gadsby and West Valley resources; is that right?

A. Yes, it does.

Q. If you could look at the page one of the attachment, which is the -- I'm looking at what's denoted at the bottom as page one, so it's actually the second yellow piece of paper.

A. Yes.

Q. And page one is total company amounts, while page two are Washington-allocated amounts; is that right?

A. That is correct.

Q. If you could stay on page one, the line labeled Market Value While Online, does that represent the cost of power if the company had not acquired Gadsby and West Valley?

A. It is the energy value of that power, yes.

Q. And that's indicated by the footnote one?
A. Correct.
Q. And the assumption that's being made for generation is shown on the line labeled generation on the same page?
A. That is correct.
Q. If we wanted to calculate an average cost of energy for any of the fiscal years that are shown here, would we take the market value amount and divide it by the generation amount?
A. That would give you a calculation of the energy that is being displaced by those units, yes.
Q. Okay.
A. That would not include any of the reserve or transmission savings associated with that power, though, so it would represent the energy value at market, not necessarily delivered to the spots within the system where it is needed.
Q. Okay. I wanted to ask you that about the transmission savings line. That's the amount of savings in transmission that the company calculates for its acquisition of the Gadsby and West Valley resources?
A. Yes, it is.
Q. You may not be able to answer this, and you

can say so if you can't, but I'd like you to look at Mr. Widmer's rebuttal testimony, which is Exhibit 62, at page seven.

A. I do not have a copy of Mr. Widmer's testimony.

MR. VAN NOSTRAND: I can provide a copy.

JUDGE MOSS: It can be provided. What page, Mr. Cedarbaum?

MR. CEDARBAUM: Page seven of Exhibit 62.

JUDGE MOSS: Thank you.

Q. If you look at the third bullet that starts on line 12, does that item -- does that description in Mr. Widmer's testimony concern the transmission savings that are included in your Exhibit 80-C?

A. It appears, I believe, by wheeling expenses, he is referring to transmission savings, yes.

Q. And he refers to an SP15 to Mona. Presumably that's some transmission line. Do you know where SP15 is?

A. SP15 is your Sourthern California market. Mona is a substation, I believe in central Utah.

MR. CEDARBAUM: Thank you. Those were all my questions.

JUDGE MOSS: Any questions from the bench for Mr. McDougal? All right. Well, I guess we do have an opportunity for redirect.

MS. FISHER: Right, I just have a couple of questions.

JUDGE MOSS: Sure.

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

BY MS. FISHER:

Q. Ms. Davison suggested that the Washington percentages may be declining over the years shown in your exhibits. Would the allocation factors you used cancel or change from year to year to pick up any such trend?

A. Yes, they would.

Q. So would the costs allocated to Washington in each of your exhibits already take into account any change in the Washington percentage?

A. Yes, they would.

Q. Referring to Exhibit 80-C, Mr. Cedarbaum asked you some questions about the benefits to Washington. Are there any benefits or any disbenefits that would result if the resources were not acquired?

MR. CEDARBAUM: Your Honor, I'll object. I never asked about benefits. It's beyond the scope of redirect. I didn't ask a single question about that.

MS. FISHER: Your Honor, referring to Exhibit 62, on page seven, which is Mr. Widmer's testimony, those go directly to benefits and describe the benefits of having the Gadsby and West Valley peakers.

JUDGE MOSS: I'll allow the question.

THE WITNESS: In looking at the Exhibit 80-C, we show the net operating revenue impact, which is a positive impact for the state of Washington. On page two, if you look at fiscal year '04, it's approximately $518,000 positive revenue impact based upon our planning numbers. There's also some net plant which gets allocated which offsets a large portion of those, but there is still a net benefit to the state of Washington because of the acquisition of the Gadsby peakers.

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

MR. CEDARBAUM: Just one question, Your Honor.

JUDGE MOSS: Go ahead, Mr. Cedarbaum.

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

BY MR. CEDARBAUM:

Q. Mr. McDougal, the Washington-allocated amount that you referred to, is that based upon modified accord allocation?

A. Yes, it is.

MR. CEDARBAUM: Thank you.

JUDGE MOSS: All right. That would appear to complete the questions for you, Mr. McDougal, and we thank you very much for your testimony. You can step down, and I am asking that the witnesses be kept available for recall, if necessary.

Ms. Fisher, your witness has stated a figure from this confidential exhibit, which, of course, in and of itself constitutes a waiver of that with respect at least to that figure, but that raises a broader issue that we need to be mindful of as we deal with the confidential exhibits. Either we need to waive confidentiality or we need to be very cautious, as, for example, Mr. Cedarbaum has been, and not referring to specific numbers on those exhibits.

And in that connection, I will turn to you, Mr. Van Nostrand, and ask you about Exhibit 3-C. Mr. Larsen testified as to the numbers displayed on that exhibit yesterday, and I'm wondering if we might simply simplify our record by having a waiver on the confidentiality on that particular exhibit? And if you want to think about that and consult with him and get back to me later today, that would be fine.

MR. VAN NOSTRAND: Can I do that, Your Honor?

JUDGE MOSS: Yes, that would be fine.

MR. VAN NOSTRAND: It certainly wasn't at my suggestion to say those numbers on the record.

JUDGE MOSS: Well, it's not a question of fault; it's just a question of how things unfold. You know, sometimes exhibits bear a confidentiality designation that can be removed, and that does simplify matters both in terms of examination and the record. So I always ask and see if we can do that. Let's see. Our next witness, I believe, is Mr. Widmer.

MR. VAN NOSTRAND: Your Honor, I was under the impression that no one had any questions for Mr. Griffith, and I wonder if we might take him out of order and just stipulate his testimony and exhibit in.

JUDGE MOSS: We can certainly inquire into that area and see if we can release Mr. Griffith from the room to do other business. So let me ask if any counsel have questions for Mr. Griffith?

MS. DAVISON: No, Your Honor.

MR. CROMWELL: No.

MR. CEDARBAUM: No, I don't, Your Honor. I would just include in the admission of evidence on Mr. Griffith Exhibit 94, which was a cross-examination exhibit for him. As long as that's admitted, I don't have any questions.

JUDGE MOSS: All right. Does the bench have any questions for Mr. Griffith?

CHAIRWOMAN SHOWALTER: I guess not. Thank you.

JUDGE MOSS: Okay. All right. Well, it does appear, then, that we can perhaps have Mr. Griffith's exhibits by stipulation, but would want to include in that Staff Cross Exhibit 94. And also, Number 26 was indicated to be one that was more properly associated with Mr. Griffith's testimony. So if we can have all of those exhibits by stipulation, then we won't need to have to witness on the stand.

MR. VAN NOSTRAND: We continue to object to Exhibit 26. I think if that exhibit is to be put in the record, it would be through Mr. Griffith. And I take it, by ICNU counsel choosing not to ask Mr. Griffith any questions, that they're no longer pursuing admission of that exhibit, but we certainly do not wish to have that exhibit admitted.

JUDGE MOSS: Ms. Davison.

MS. DAVISON: Your Honor, Mr. Van Nostrand is correct. We are not seeking the admission of that document given the time of schedule. Going through a detailed examination about that exhibit, which probably would require examination of Mr. Falkenberg, as well, we have elected not to pursue that course of action.

JUDGE MOSS: All right. So we'll treat 26 as withdrawn. And 94, then, no objection from the company?

MR. VAN NOSTRAND: No, Your Honor.

JUDGE MOSS: Okay. Then we will admit by stipulation Exhibit Numbers 90 through 94, that were previously identified with Mr. Griffith. That would include his prefiled direct testimony and his three exhibits, and in addition, then, the Staff cross exhibit. Sorry to deprive Mr. Griffith of the opportunity to take the stand, but, hey, life's like that sometimes. All right. Mr. Widmer, then.

CHAIRWOMAN SHOWALTER: Mr. Larsen made up for it.

JUDGE MOSS: All right.

Whereupon,

MARK T. WIDMER,

having been first duly sworn by Judge Moss, was called as a witness herein and was examined and testified as follows:

JUDGE MOSS: Thank you. Please be seated. I'll just caution, we are going to take a break at 10:00 for one half-hour, so we'll just get started with Mr. Widmer and then we'll do that.

MR. VAN NOSTRAND: Your Honor, if I could distribute a revised Widmer exhibit at this time?

JUDGE MOSS: All right. What number is it?

MR. VAN NOSTRAND: MTW-4, which would be 61-C.

JUDGE MOSS: Okay. Revised 61-C. Does this replace existing 61 in its entirety?

MR. VAN NOSTRAND: Yes, Your Honor.

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

BY MR. VAN NOSTRAND:

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

A. My name is Mark T. Widmer, M-a-r-k T. W-i-d-m-e-r.

Q. And what is your position with the company?

A. A manager in the regulation department.

Q. Do you have before you what's been marked for identification as 57-C, which is your direct testimony in this case?

A. I do.

Q. And Exhibit 62, which is your prefiled rebuttal testimony in this case?

A. I do.

Q. Do you have any additions or corrections to make to either of those documents at this time?

A. I have just a couple corrections.

Q. Could you proceed with those corrections?

A. Yes, I will. And I'm going to refer to the original filed testimony, just to help everybody follow along. On page seven, line 13, the number --

JUDGE MOSS: Give me a minute, Mr. Widmer. I've got the revised testimony.

THE WITNESS: I'm sorry.

JUDGE MOSS: And I need to get the original.

Q. Can you refer to the revised testimony instead?

A. I don't have it marked. I mean, I could, I suppose.

JUDGE MOSS: We'll tie it together. I have both sets, so we'll tie it together. You'll have to go slowly, because we are going to use the revised version as our official record, and that's what we all have on the bench. So tell us again, page seven of the original?

THE WITNESS: Page seven of the original, line 13, the number 440 should be 426.

JUDGE MOSS: Okay. Now --

THE WITNESS: That's in my rebuttal testimony.

JUDGE MOSS: Oh, in your rebuttal?

MR. VAN NOSTRAND: Rebuttal didn't change.

JUDGE MOSS: There is no revised rebuttal testimony.

THE WITNESS: Oh, okay, I'm sorry.

JUDGE MOSS: We're looking actually not at Exhibit 57-C, but instead at Exhibit 62. So Exhibit 62, page seven, the number 440 at line 13 is corrected to be?

THE WITNESS: 426. Also in my rebuttal testimony, on page 18, line one, the number that's 594 should be 592.

CHAIRWOMAN SHOWALTER: You have to realize, we can't turn the page as fast as you can talk, so I'm just getting to page 18 right now.

JUDGE MOSS: The 594 on line one should be what?

THE WITNESS: 592.

Q. Does that complete your corrections, Mr. Widmer?

A. I have one more for my direct testimony.

JUDGE MOSS: That's Exhibit 57-C?

THE WITNESS: Yes. On page eight, line five, the 686 figure should be 660, and this was the change that's reflected on my revised Exhibit 4 that Mr. Van Nostrand handed out just a minute ago.

JUDGE MOSS: I'm not seeing those figures.

CHAIRWOMAN SHOWALTER: We have a 687.

THE WITNESS: Okay, the 687.

MS. DAVISON: It's becoming what?

CHAIRWOMAN SHOWALTER: Oh, wait. This is a confidential page.

MR. CROMWELL: Not anymore.

Q. That's a redacted number from the confidential exhibit?

A. Yes.

Q. So are we waiving confidentiality as to that number?

A. No.

Q. Then we need to --

CHAIRWOMAN SHOWALTER: It's only a number.

It hasn't been characterized as to what it is.

MR. VAN NOSTRAND: That's true, but --

MR. CROMWELL: Your Honor, the page I have has a number that's one digit higher than the number he referred to --

JUDGE MOSS: Right.

MR. CROMWELL: -- on line five. Is that -- on the revised direct testimony, is the number on the revised direct testimony incorrect and it should be the number that he just spoke?

THE WITNESS: The corrected number should just be 660, so --

JUDGE MOSS: All right. Well, I'll correct our exhibit to include that number.

Q. Does that complete your corrections, Mr. Widmer?

A. Yes, it does.

Q. As corrected, if I asked you the questions set forth in Exhibits 57-C and 62, would your answers be the same as set forth therein?

A. They would.

Q. And do you also have before you what's been marked as Exhibits 58, 59-C, 60, and 61-C?

A. I do.

Q. Now, are those the exhibits accompanying

your direct testimony in this case?
A. They are.
Q. And the 61-C that we're referring to is the revised version that was distributed this morning?
A. That's correct.
Q. Could you describe briefly what the nature of any revisions were to that exhibit?
A. Yes, if you turn to page six of that exhibit --
JUDGE MOSS: Again, this is a confidential exhibit.
THE WITNESS: Yes, it is. The number that is labeled under STF in the middle of the page was overstated in the previous exhibit.
COMMISSIONER OSHIE: Excuse me, Mr. Widmer, but can you repeat what exhibit we're on now?
JUDGE MOSS: We're on 61-C.
COMMISSIONER OSHIE: 61-C. Thank you.
CHAIRWOMAN SHOWALTER: The revised version that we got?
THE WITNESS: Yes.
JUDGE MOSS: Page six, and we're looking at the line that's about one-third of the way down that is labeled STF.
THE WITNESS: And that change in that

number also caused the number at the bottom, the total net power cost number, to change. And that's it.

Q. And that total net power cost number that changed, then that corresponds with the revision that you just made to your direct testimony; correct?

A. Yes, it does.

Q. And were these Exhibits 57 through 61-C prepared under your direction or supervision?

A. They were.

Q. As corrected, are they true and correct?

A. They are.

MR. VAN NOSTRAND: Your Honor, I'd move the admission of Exhibits 57-C through 61 -- 62.

JUDGE MOSS: Hearing no objection, those will be admitted as marked.

MR. VAN NOSTRAND: Mr. Widmer is available for cross-examination.

JUDGE MOSS: Okay. And I believe, Ms. Davison, you did indicate some cross-examination for this witness. We've got 15 minutes, so I think you should go ahead and get started.

MS. DAVISON: Thank you, Your Honor. Your Honor, I would like to move the admission of Exhibits 64 through 73.

JUDGE MOSS: Is there any objection from the company?

MR. VAN NOSTRAND: No, Your Honor.

JUDGE MOSS: Okay. Hearing no objection, 64 through 73 will be admitted as marked. These are the previously indicated exhibits that might be used on cross-examination for this witness. I'll note that 63 was admitted with Mr. Larsen.

MS. DAVISON: Thank you, Your Honor.

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

BY MS. DAVISON:

Q. Mr. Widmer, what do you believe to be the relevant test to determine whether deferred power costs should be recoverable in this proceeding?

A. The whole purpose of the company's filing in this case is to quantify some additional costs that the company's currently not recovering to help ameliorate the company's poor earnings position that it's currently experiencing in the state of Washington.

Q. And what precisely do you think should be the test to determine whether you should recover those costs?

A. I think as long as the costs are prudent and reasonable that would be accrued to the deferral, they are reasonable to be considered for recovering by the Commission.

Q. Is there a single event that triggered the company's filing of the deferred accounting petition in this case?

A. I believe the triggering of the company's petition for deferred accounting in this case is related to the company's analysis of what its Washington earnings look like. You know, basically, for the most part, the company had attempted to live within the agreement of the rate plan. However, given the fact that the company bore 98 million of an unexpected net power cost related to the power crisis, that has hurt the --

Q. Mr. --

JUDGE MOSS: Please don't interrupt.

THE WITNESS: -- company's ability to bear normal ongoing costs. So what the company is trying to do here, as I indicated, is just get recovery of some additional costs to help out with those poor Washington earnings.

Q. Mr. Widmer, it will be a long morning. What I asked you is -- and could you answer yes or no -- was there a single event that triggered the

company's filing of the deferred accounting petition?
A. I think I answered, and the answer is yes, the company's review of its expected earnings in the state of Washington.
Q. Is that a single event along the lines of a single event such as storm damage, plant additions or changes in tax code?
A. No.
Q. If you'd turn to Exhibit 60. This is the exhibit that calculates the approximate 17.5 million in estimated excess net power costs for the deferral period; is that correct?
A. That's correct.
Q. In calculating these numbers, what number did you assume for annualized net variable power cost?
A. I believe the budget numbers for the 12-month period of our deferral is somewhere in the neighborhood of $746 million.
Q. How many months of actuals do you now have?
A. We have actual information through December 2002.
Q. Based on your actuals, do you have a revised estimate for the excess net power costs?
A. I do. I just calculated that the other

day. The $17.5 million number is now 15.9 million.

Q. In your rebuttal testimony, Exhibit 62, at page two, you state that a number of the issues raised by Mr. Falkenberg and Mr. Buckley should be addressed in a subsequent review of the deferred amounts; is that correct?

A. Oh, I think what I actually testified to was that the reasonableness and prudence of the costs that potentially would be deferred under the company's proposed deferral mechanism could be reviewed once the deferrals are known.

Q. Isn't it correct that the company's proposal in this case is to begin immediate collection of the deferred amounts?

A. I think the company's original filing stated that. However, it has always been the company's intention and belief that, as any tariff filings in the state of Washington requesting cost increases, that it would be subject to a review of the costs incurred to determine the prudency and reasonableness of those costs.

Q. So is the company changing its proposal and is not asking for immediate recovery of these costs now?

A. The company has not actually changed its proposal, but is not in disagreement if, in fact, the Commission decides that there should be a period of time post the completion of the deferrals to review those costs.

Q. Has the company proposed a process by which these costs would be reviewed?

A. In my rebuttal testimony, I indicated that it would be reasonable to take a 60 to 90-day period post the completion of the deferral for the parties to review the deferred costs. Beyond that, though, we haven't proposed anything.

Q. If I understand your testimony correctly, then the company has changed its proposal. Instead of immediate collection of the dollars, you are now proposing that you not collect them until 60 or 90 days after the end of the deferral period; is that correct?

A. No, that's not what I testified to. What I testified to was that the company has not changed its request. However, we would not be opposed to a review if the Commission decides that a review of the costs is necessary and appropriate.

Q. In Wyoming, did the company agree to remove the cost associated with the summer 2002 forward power purchases?

A. In the state of Wyoming, in our general rate case, we agreed that the summer 2002 -- summer forward purchase cost, the amount that was above market was a nonrecurring cost and shouldn't be built into base rates. We also proposed that once those costs would be pulled out of the base rate calculation, that they should be amortized over the period between the conclusion of that case and the next general rate case.

Q. Are the summer 2002 forward purchases currently being recovered in Utah?

A. It's true that they're not being recovered in Utah, but they are being recovered in Oregon.

Q. Are you seeking to recover the summer 2002 forward purchases in this deferred account?

A. Yes, we are.

Q. Do you plan to file a petition for deferred accounting in Washington for 2003 or 2004?

A. At this time, I am not aware of any plans to do so.

JUDGE MOSS: Ms. Davison, it looks like you're about to switch subjects on us here, so maybe this would be a convenient moment to take our 10:00?

MS. DAVISON: I think I'm done. If I get 30 seconds -- I just want to double check my notes, but --

JUDGE MOSS: All right.

Q. Is it true that in the Oregon rate case that was filed on March 18th, that the company asserts through your testimony that the normalized power costs are 610 million?

A. I believe it's 611 million, but that is correct, for fiscal 2004.

Q. Okay. One quick second. Turning to your rebuttal testimony on page 14, lines 19 and 20 --

A. Is that the -- never mind.

Q. You state that Mr. Falkenberg and ICNU support recovery of the summer 2002 forward purchases. Do you see that?

A. I do.

Q. Isn't it correct that the docket number that you're referring to in Oregon resulted in a stipulation?

A. That's correct. What I'm referring to is the language in both the stipulation and the order that says that ICNU supports the recovery of those costs.

Q. And isn't it correct that ICNU supported those costs in exchange for other concessions from the company in that stipulation?

A. It was certainly part of an overall package, yes.

MS. DAVISON: I have no further questions, Your Honor.

JUDGE MOSS: All right. We are about to take our break, but before we do that, I just want to -- I wanted to issue a bench request to the company, and that would be for an update of Exhibit 60 to reflect the monthly actuals through December 2002, and if that could be provided -- well, let me ask you. When could that be provided?

THE WITNESS: I actually have a copy here that we can make some copies and provide to you.

JUDGE MOSS: During the break. Excellent response time. We'll be in recess until 10:30.

(Recess taken.)

JUDGE MOSS: All right. Let's be back on the record. During the morning recess, I was handed up the response to bench request number one, and I have marked that for identification as Exhibit Number 160, and assuming that no one has a problem with it, we'll admit that as marked. All right. It's admitted.

Now, let's see. I believe we are -- Mr. Cromwell, we are to you, I believe, with Mr. Widmer.

MR. CROMWELL: Thank you, Your Honor.

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

BY MR. CROMWELL:

Q. Good morning, Mr. Widmer. My name's Robert Cromwell, I'm with the Attorney General's office.

A. Good morning.

Q. Good morning. One question about your Exhibit 61-C, attached to your testimony as MTW-4. You provided a revision for us this morning; is that correct?

A. That's correct.

Q. Can you tell us whether your revision in any way affects the relief the company is requesting today before the Commission?

A. It does not.

MR. CROMWELL: Thank you.

JUDGE MOSS: Okay. Mr. Cedarbaum.

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

BY MR. CEDARBAUM:

Q. Hello, Mr. Widmer.

A. Good morning.

Q. Just starting you off on page five of your rebuttal testimony, which is Exhibit 57-C, in the lines six through about ten, you describe certain purchases made by the company prior to June 2001 to cover what you call usually high resource requirements of the 2002 summer peak period?

A. Are you looking at the original or the new?

Q. I'm sorry, I'm looking at your revised direct testimony. My mistake.

A. Oh, okay.

JUDGE MOSS: And what page, again?

Q. Page five. It's Exhibit 57-C. And just to repeat the question, at line -- beginning at line six, you refer to some purchases made prior to 2001, of June, that you said were to cover the usually high resource requirements of 2002 summer peak period. Do you see that?

A. I do.

Q. Now, in Exhibits 58 and 59-C, these exhibits basically are the information that you use to calculate the deferral amount in Exhibit 60 and now in Exhibit 160; is that right?

A. That's correct.

Q. And there are differences between 58 and 59-C relating to individual sales or purchase contracts because some of the contracts have expired or been replaced by other contracts, but then some contracts may have remained the same?

A. That's correct.

Q. Looking at 59-C, can you tell me what row the 2002 summer peaking contract costs are included in?

A. Yes, if you look at page two, the category labeled STF, they would be included in that row for the months of June, July and August of 2002.

Q. If we look at page three of this exhibit at the top left hand column, right along the left hand edge, it says net system load. Are those the amounts that represent actual system loads for the period shown on the exhibit?

A. Those aren't the actual system loads; those are the estimated system loads. If you recall, this exhibit's primarily based upon budgeted information.

Q. Is the corresponding page in Exhibit 58? So if we look at page three of Exhibit 58, as the term is used, net system load, in the upper left-hand area, are those normalized net system loads used from the prior general rate proceeding?

A. Yes, they are.

Q. And again, you used Exhibits 58 and 59-C to -- for purposes of calculating the deferral amount in Exhibit 60, and now we have Exhibit 160?

A. That's correct.

Q. And so looking at Exhibit 60 on line one, looking at page one, there's a reference to NPC. Do you see that?

A. I do.

Q. Is the amount shown in the second -- in column number two, what's labeled column number two, does that amount include the costs associated with the summer peaking contracts that we discussed earlier?

A. Yes, it does.

Q. Would it be correct to say that, in general, that if any of the costs that are included in Exhibits 58 and 59 change, that the calculation of the deferral changes, as well?

A. That's correct.

Q. So just to run by a couple of examples, if we were to look at Exhibit 59-C on page one, the fourth line up from the bottom, there's a reference there for Hermiston purchase. If that amount for the deferral period were to change, the calculation of the deferral would change?

A. Yeah, if any figures on those exhibits change, then the deferral would change.

MR. CEDARBAUM: I'm leaving that exhibit, Mr. Widmer. But, Your Honor, I'm remiss in not offering the remaining cross exhibits that were marked for Mr. Widmer. I'd like to do that now. That would be Exhibits 74, 75, 81 through 87.

MR. VAN NOSTRAND: No objection.

JUDGE MOSS: All right. Hearing no objection, those will be admitted as marked.

Q. If you could look at Exhibit 74. And my first question is, looking at the attachment, do the purchases that are listed here represent the peaking -- 2002 peaking purchases that we discussed earlier?

A. They are the summer 2002 forward purchases, yes.

Q. That would be shown because they're -- the dates on them begin June 2001 and run through September or so, 2002?

A. Yeah, actually, let me correct something I said earlier. I think earlier I said they were June through August. They're actually July through September.

Q. On the exhibit, there's a -- right in the middle of the page, there's a reference at the top to HLH.

A. Mm-hmm.

Q. What does that mean?

A. Heavy load hour. Basically, these are peak products, standard six-by-sixteen heavy load hour products.

Q. And when you say heavy load, what hours and days are you referring to?

A. That's 6:00 a.m. to 10:00 p.m., Monday through Saturday, with the exception of holidays.

Q. And then, three columns over from HLH, there's a reference to POD. Is that point of delivery?

A. Yes, it is.

Q. And PV would be Palo Verde?

A. That's correct.

Q. And just finally, with this exhibit, there's a number at the bottom of the page, it's the fourth column over at the bottom of the page, $151.54. Is that the weighted average price for the purchases that are shown on this page?

A. Yes, it is.

Q. Okay. Let's move to a different topic. If you could look at Exhibit 82. This is your response to Staff Data Request 87, which concerns the Aquilla or Aguilla --

A. Aquilla.

Q. -- Aquilla hydro hedges. Can you just

generally describe what that is?
A. Basically, the company has a hedge transaction with the Aquilla Corporation, whereby there are some predetermined flow levels established for some of the company's projects on the Columbia River. And to the extent there are deviations from those flows, the company could either receive a payment, if the hydrogeneration was below the established levels, or the company would make a payment to Aquilla if the hydro flows were greater than the established levels.
For example, for the period April through June 2002, essentially the start of the company's proposed deferral period, the company made a $6.6 million payment to Aquilla. For the July through September period of the deferral period, generation and river flow levels were relatively normal. There was no payment by either party. And for the December -- excuse me, October to December 2002 period, the company received a $3.7 million payment under that contract.
Q. You referenced water conditions. What are, on -- I don't need a long explanation, but just how would you characterize water conditions this winter?
A. They've been -- generally have been pretty

dry, although recent rainfalls have increased quite a bit, snowpacks have increased quite a bit recently, although I would surmise that they're still a fair amount below normal.
Q. You referenced some payments that the company has received under the contract. Was that the only payment or have there been others?
A. It's the only one that I'm aware of during the deferral period. And the payments are quarterly, so the next payment -- potential payment would be like in April of this year.
Q. When did the contract, the hedge contract become effective, do you recall?
A. I believe it started in the fall of 2002, if I'm not mistaken. Excuse me, fall of 2001.
Q. That doesn't quite jibe with our -- and I should state that the -- we did not include the contract itself in the exhibit, because it was confidential, but it was attached to the data request.
A. Uh-huh.
Q. And our analysis was that the contract became effective about mid July of 2001. Is that --
A. Okay, I'm off by a couple months. That sounds reasonable.

Q. Will you take that subject to check?
A. Yeah.
Q. You reference in the exhibit a 1.75 million annual premium. Is that amount included in your Exhibit 59-C?
A. Yes, it is.
Q. Just to be clear, where would that be?
A. That would be on page one, and it would be the first contract listed under the category long-term firm purchases.
Q. That's AEPCO?
A. No, you're looking under long-term firm sales. Go down to the middle of the page.
Q. Okay, I'm sorry. Got it. Okay, there it is. In your Exhibit 82, it says that the in the money revenues are not included as revenues when determining actual net power supply expense because the budget assumes normal hydro; is that right?
A. That's correct.
Q. So is it correct that other power supply expenses included in your Exhibit 59-C represent actuals, but for this agreement, you haven't included any actual in the money revenues because they were not budgeted?
A. Could you repeat that question?

Q. Is it correct that the power supply expenses that you've -- the other ones that you've included in your Exhibit 59-C --

A. Mm-hmm.

Q. -- are actuals, but with respect to the Aquilla hydro hedges, those are not actuals, because the revenues have not been budgeted?

A. That's correct.

Q. Is it also correct that the only attachment that was provided with this data request response in Exhibit 82 was the contract itself?

A. I believe that's the case.

Q. If you could turn to Exhibit 84. Do you recognize this as a PacifiCorp press release dated March 7th, 2002?

A. I do.

Q. If you look at the fourth bullet item down in the middle of the page, it identifies a couple of options that the company looked at for power deliveries into the Utah power electric service area; is that right?

A. That's correct.

Q. And the reference to a flexible lease in the first sub-bullet, does that refer to the West Valley project?

A. It does.

Q. If you could look at Exhibit 85, this is the company's affiliated interest transaction cover letter to the filing made with this Commission with respect to the West Valley lease; is that right?

A. That's right.

Q. On the second page, in the first paragraph, under subheading C, it says that the RFP, which was made in September 2001, focused primarily -- there's some language in there, but basically on PacifiCorp's eastern control area; is that right?

A. That's correct.

Q. Do you know if the company submitted, in 2001 or 2002, any RFPs for delivery of power in the western control area?

A. I do not think the company did. I would add, though, that despite the fact that the company didn't submit RFPs for the western system during 2001, 2002, that the Gadsby peakers and West Valley CTs can be used to meet load requirements in the western control area, and have since their operation, periodically.

MR. CEDARBAUM: Thank you. Those are all my questions.

JUDGE MOSS: Thank you, Mr. Cedarbaum.

Questions from the bench for Mr. Widmer?

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. Well, I'd like to follow-up a little bit with your testimony earlier that you would not object to our granting you a deferred -- deferred accounting treatment, subject to determining actual recovery at a later time. Was that what I heard?

A. That's -- that's what I said, and I think I was -- I misspoke a little bit. What I really meant to say was the company's preferred recovery method in this case is to have the Commission grant recovery of the deferred amounts through this hearing, but make them subject to a prudence review. Given the fact that the company is seeking to offset any increases related to the deferral over the credits over the following two-year period, I think the prudency review would give the Commission and other parties plenty of time to evaluate the prudency of the costs included in the deferral and, to the extent a portion of those are not recovered or are not deemed to be recoverable or imprudent, that it leaves the Commission enough time and the company enough time to adjust those deferrals so that the company doesn't collect more money than it should collect.

Q. All right. So is another way to put that you are requesting recovery now subject to refund, based on a prudency review?

A. That's correct.

Q. All right. And now, I'd like to hear from you what process you think that entails. You said once all of the expenditures are actually made and the deferral period is up, there could be some kind of review that maybe would take 90 days; is that correct?

A. Yeah, I think once the deferrals become known, then the parties will have -- should have an opportunity to review the costs included within the deferral and propose adjustments to the extent they deem some of those are not reasonable costs to be recovered through the deferral. The deferral -- and at the end of that 60, 90-day period, we could have a hearing to address those issues that are raised by the various parties in the case.

Q. All right. But in order to establish the account in the first place, we would have to determine what goes into it in an accounting sense; is that correct?

A. Yes, I believe, you know, the company has made a recommendation as to how that would be calculated. Obviously the Commission could rule differently and change what gets included in the deferral account, but --

Q. And what I'm wondering on those measurements, supposing we pick some and create an account, is then the only thing that we would review later is the prudency of the expenditures going into that account or is it possible that we would revise the measurements?

A. Well, I think if the Commission rules and determines what should go into the account, what category of costs should go into the account without determining the prudence of the items that are in those categories, I would think it's probably not appropriate to, after the fact, once again, change what goes into the accounts, but I think it would be appropriate, obviously, to review the prudence of the items that go into those accounts based upon the Commission's recommended deferral calculation.

Q. So in order just to grant setting up the account, as distinct from the recovery, we do have to make -- we would have to make some conclusions about whether your approach is correct or whether there need to be revisions to it, in terms of the variables and inputs that you've provided?

A. I think that's correct.

Q. Okay. Then it seems to me that the company is approaching this problem as the pig and the snake. That is, that you had a bad period, maybe you had a big bad period, but part of that bad period, you are trying to get recovery for, but you're looking at it as a surcharge that is not affecting underlying rates; is that correct?

A. Yes, we're not asking to change base rates. We're asking for a surcharge change.

Q. But keeping this analogy of the pig and the snake, in order to determine how big the pig is, you also have to know how big the snake is. And isn't that part of the problem here, that because there has not been a general rate case for a while and we haven't settled on allocation, those sorts of things, there's nothing in this state recently defined as exactly how big that snake is?

A. Well, you know, I guess my view is that the baseline that the company used in this case is extremely conservative, because we chose to use as the baseline what the company filed in the last case, assuming we got a hundred percent recovery of the costs, when, in fact, through the rate plan, we only recovered approximately 50 percent of the cost.

So in doing that, we've used a conservative calculation, because the larger -- the higher the baseline, the lower the deferral. If we had assumed that we got something less than we filed for, say something that was, you know, pro-rated based upon getting 50 percent recovery, what we originally requested, our deferral would be a lot bigger. So I guess, based on that, I think the Commission should have some comfort level in the size of the company's deferral as being relatively reasonable.

As far as allocations, it's kind of my view that in the last case, the 1999 case, which apparently allocations were an issue there, too, it wasn't such a large issue that a determination couldn't be made as to what was a reasonable increase for the company. So I don't see those as being insurmountable obstacles.

Nonetheless, though, if the Commission does decide that those are insurmountable in terms of this case for the deferral, I think it may be reasonable to have a limited break of the rate plan to allow a complete review of all the company's cost variables and allocations in order to determine the appropriate treatment for all these items that may be complicating the company's request.

Q. And if we did that, in essence, considering all the things that one might consider in a general rate case, do I understand your position to be that we would probably find that snake to be much bigger? That is -- by that, I mean that your view is you're earning well below your authorized -- or any reasonable rate of return, and so if we want to really dig into things, you are going to make a case that, overall, you really deserve much more aside from this pig you're dealing with; is that correct?

A. That's correct.

CHAIRWOMAN SHOWALTER: I have no further questions. Thanks.

THE WITNESS: Thank you.

E X A M I N A T I O N

BY COMMISSIONER HEMSTAD:

Q. On page nine of your direct testimony, Exhibit 56-C, I believe -- no, 57-C, just a factual inquiry. You describe the situation in California, that California declined to permit your request to sell your California properties. And what was the reason for that?

A. Well, there have been numerous reasons through time. This has gone on for a couple years. The three that I recall, one was related to the corporate structure of the entity that we were selling the property to wasn't appropriate as determined by the California Commission.

Secondly, I believe there was complications in relation to the power crisis that, you know, one of the benefits of them buying our property was that they were going to be able to provide rates to the California customers at a lower price than the company would be able to provide --

Q. And who --

A. -- rates to.

Q. Who was the potential buyer?

A. Their name was NorCal. But given the very high prices that were included or prevalent during the power crisis, they wouldn't be able to make the transaction look economic, since they'd be buying from the market, because the company would have retained the resources that had originally been serving California. They wouldn't have been able to offer customers prices lower than the company.

And third, there was a fair amount of local opposition to the transaction, also, and I think probably some of that actually came out of the power crisis also. They saw that there was much more stability having the utility own the distribution property, as opposed to another entity who would have been buying energy from the volatile energy market.

Q. Does the company have any plans to pursue that further at this point?

A. Things are still being talked about, although there's -- at this point in time, I would say it probably doesn't look like the transaction's going to happen, but parties are still talking.

Q. You referenced a limited -- I think the term was limited break in the rate plan in order to have a rate case. Well, then, as a practical matter, that would mean essentially the termination of the rate plan were we to order a full rate case, wouldn't you agree? I mean, the rate plan would then be gone, wouldn't it?

A. I think that's probably a fair assumption.

Q. Were we to order such, how long would it -- how much time would the company need in order to prepare a full-blown rate case?

A. My understanding, from talking with the people -- other people that would be involved in the case, that we'd probably be able to file a case not before August or September of this year.

COMMISSIONER HEMSTAD: That's all I have. Thank you.

THE WITNESS: Thank you.

CHAIRWOMAN SHOWALTER: I have a follow-up just to that very question, if it's okay.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. I had thought there were two, maybe three possibilities, but that one possibility is to open up this whole settlement agreement, have a general rate case, a different general rate would come out at the end. I had thought what you were saying was a more limited, quote, general rate type case would be to -- that in order to determine how much to recover of this deferred amount, the Commission would be needing to look much more broadly at the underlying benchmarks that we should be applying, and that is what would amount to an inquiry of the scope of a general rate case, but wouldn't actually be a general rate case. It would be all for the purpose of determining this deferred amount. But maybe I just misunderstood.

A. Could you ask that question again?

Q. Well, I realize I didn't ask it very well.

And I guess option one was, in the deferral period, have a 90-day review of whether your costs were prudent, because we would already have determined what all the appropriate measures were in this proceeding. So that would be fairly simple. And then, at the other end was stop the process, have a general rate case in which we would not only determine what amount you could get out of the deferred account, but also what a new reasonable, just and sufficient rate is.

Now, I had thought there was something in between there, and I won't go further if that's not what you meant.

A. I think there probably is something in between there, but, yeah, that would ultimately be the Commission's discretion as to which approach they took. But I think, depending upon how the Commission views the complications from some of the issues that have been raised by the parties and the seriousness of the company's poor earnings in Washington, those factors would weigh on the determination the Commission comes up with, whether we do the simple deferral, authorization of the deferral with the 90-day prudence review, or we go the full boat kind of method, where we have a full-blown general rate case where we reestablish base rates, determine what appropriate allocation factors are for the company, have a complete and thorough prudence review of the various resources that would be included in the company's filing, and also look at recovery of the costs deferred during the deferral period.

CHAIRWOMAN SHOWALTER: Okay. Thank you.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. Mr. Widmer, I'd like to clarify what I think at least appears to me to be an inconsistency in your testimony and that of Mr. Larsen, so it's basically the company's position.

I asked Mr. Larsen yesterday, and I'm not sure if you were in the audience, but I suspect you may have been, as to the company's plans for the balance for the accrued, if you will, excess power costs for the balance of 2003, 2004 and 2005, and the company's plan for recovery of those amounts.

I believe Mr. Larsen's testimony was that the company, if it were allowed to recover the deferral that it has proposed in this case, that those amounts for the balance of 2003, 2004 and 2005, would essentially be absorbed by the company and they would adhere to the rate plan until its termination in 2005.

Now, I thought I heard you say, and I don't know if it was a question in response to Ms. Davison's, but I thought I heard you say to a question similar to that that the company hadn't decided whether it would come in to attempt recovery of those excess power costs for the balance of 2003, 2004, and 2005.

A. If in fact -- if in fact I did say that, I misspoke a little bit. It is the company's intention that if we are granted the increase requested here, we would try to continue honoring the rate plan as it currently exists with this limited increase we're seeking.

Q. Can you -- I guess not to really push you much on it, but what does try to adhere to the rate plan -- what do you mean by that?

A. Well, I --

Q. I guess I'm -- the word try.

A. I believe it's the company's intention to live within the rate plan through the remainder of the term of the rate plan period if the increase is granted barring any other very unusual events which would add to the burden the company's already bearing in the form of the much lower than contemplated earnings.

COMMISSIONER OSHIE: Okay. Thank you.

E X A M I N A T I O N

BY COMMISSIONER HEMSTAD:

Q. But if I could pursue that a bit further, the company's problem with excess power costs, I assume, extend into those future years, don't they?

A. They would.

Q. Well, then, what makes your current proposal and the proposed one-year deferral significantly different than future years?

A. Well, as Mr. Larsen indicated, and I think I just kind of followed up on that, it's the company's intention to try to seek recovery of a limited amount of costs that we're not recovering to help improve our earnings and -- so that we can limp along, so to speak, through the end of the rate plan period without seeking additional money beyond that.

Q. Okay. But, then, won't your earnings -- I'm not attempting to make the case for the company, but won't your earnings then fall again in those future years?

A. Our earnings are expected to be very poor, as shown on Mr. Larsen's and Mr. McDougal's exhibits. Nonetheless, the company is just seeking a little bit more money to help us get through the end of the rate plan period.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. Just what I hear you saying is if your projections stay as you predict them to be, that's your position. If the economy is bad for another two years and you don't have customers, that's a different issue. Is that really what you're saying, that nobody can predict the future absolutely, but given what your forecasts are, you would expect not to be initiating another request?

A. That's correct.

E X A M I N A T I O N

BY JUDGE MOSS:

Q. And speaking of forecasts, Mr. Widmer, I have a couple of clarifying questions that Mr. Larsen said that you would be the right person to ask, and that's with respect to Appendix A in the original filing, your Exhibit 60, which is a table that corresponds to Appendix A, but apparently is updated in some fashion or another, and then today we have gotten Exhibit 160, which was the response to the bench request, which is again the same table, but with some changes, updates and so forth.

A. Mm-hmm.

Q. In terms of the clarity of our record, I just wanted to explore with you briefly the differences among the figures displayed on these three exhibits.

I notice, for example, if you look at column one in each of the three tables, that is the end rates amount that the company reports, based, as I understand it, on the as-filed power cost in Docket Number UE-991832?

A. That's correct.

Q. And so my first question is why is that amount different as between Appendix A and Exhibit 60? I would not have expected that to change given its basis. The monthly figures are not the same for net power costs.

A. Which two exhibits, again?

Q. Let's look at Appendix A to the original filing and Exhibit 60.

A. I don't think I have Appendix A.

Q. I think your counsel is about to provide you with a copy. And we don't need to go through all of these, but just for example, if you'll look at column one, the end rates for June of 2002, row one, NPC, which is net power cost, you see there that the figure in Appendix A is 36,700,331, whereas the corresponding figure in Exhibit 60 is 36,592,070, which is not a huge difference, but it's somewhat different.

A. I see that.

Q. And then that sort of difference, and really in that magnitude, carries through in these, and because that's based on the prior rate case, it struck me that those were different, and I wondered why.

A. Subject to check, my guess is that the information included in Appendix A was based upon a preliminary -- some kind of preliminary run that was done for that case. It didn't actually completely match what ended up being filed in the case, so we have a small difference.

Q. Okay. And then, just to complete the circle on this, and then looking at Exhibit 160, it appears to me, on just a quick view, that the figures on Exhibit 60 and Exhibit 160 are the same as to this particular column.

A. That's correct.

Q. All right. Now, let's look at the next column, which is column two, labeled Forecast, and again, the figures for net power cost and net system load and so forth vary as between -- or I should say now among Appendix A, Exhibit 60 and Exhibit 160, and the word forecast, of course, is suggestive. These were budgeted? These were based on budgeted amounts originally?

A. The information for June and July in the original filing was based upon actual information. However, as you see on our updated exhibit, those numbers changed a little bit, and the reason that occurred is because the way the company does its accounting, after the books close for a particular month, they go through a period of 105 days where they're continuing their review of the actual information that was booked, and sometimes there are adjustments that are made to the original actual booked information, and that's what happened in this case. That's why we have some newly updated actual numbers that are slightly different than the originals.

Q. Now, again, though, other than June and July, are those budgeted numbers or --

A. The information on the new exhibit handed out today --
Q. 160.
A. -- 160, are actual numbers up through December 2002.
Q. Okay.
A. And the remainder of the numbers are budgeted numbers.
Q. Okay. And in Exhibit 60, those were all budgeted numbers, except for June and July?
A. That's correct.
Q. And Appendix A?
A. Yes.
Q. June and July were actual, then?
A. I believe so.
Q. Okay. I guess I'll follow-up with one more question in this regard. I was initially focused on the differences between Appendix A and Exhibit 60, and I noticed, in adding those numbers up, that the cumulative deferrals for the period as anticipated at the time of the filing, that is to say April, I believe it was, last year, about a year ago, you were anticipating at that time about $12 million in asserted excess power costs in the Washington jurisdiction. And six months later, by the time you

filed Exhibit Number 60 in October, that figure had grown to 16.5, which is about a 40 percent increase.
So my question to you is if that magnitude of difference between budgeted expectations, if you will, and actual experience is something that would be a typical experience for you to have or whether that's an unusual magnitude of difference between budgeted or what I might call expected results and actual results?
A. You know, I haven't done a lot of comparisons between, you know, changes in budgets, although I'm generally aware that sometimes just a number of months can have a significant impact on expectations regarding what budgeted levels will be. I mean, just let me give you another example.
Q. All right.
A. I think Ms. Davison brought up the fact earlier today that in our Oregon rate case, we filed normalized costs of 611 million in that case, whereas in this budget that's included in my Exhibit 4 for fiscal '04, we're at about 660 million, so changes do occur. And you know, sometimes costs go down, sometimes costs go up.
I believe Mr. Larsen indicated that some of the other costs categories that are included in the

budget, such as the pension expenses and insurance costs, are actually higher now or expected to be higher now than they were when they were originally included in the budget, so things continually move around.

JUDGE MOSS: Okay. Thank you. If there's no further inquiry from the bench, then I would ask if the inquiry from the bench caused the various parties to have additional cross before we go to the redirect?

MS. DAVISON: I just have a question.

JUDGE MOSS: One question from Ms. Davison.

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

BY MS. DAVISON:

Q. Mr. Widmer, you were explaining, in response to a question from Chairwoman Showalter, that the company is -- I think you said amenable to a 60, 90-day prudence review process; is that correct?

A. That's correct.

Q. And my question to you is at what part of the process is it in this case or is it in this prudence review case that you're anticipating or amenable to would issues such as fairness, equity, sharing mechanisms be considered, as well as issues regarding adjustments that Mr. Falkenberg, for example, proposed?

A. Well, I'm not going to agree to, you know, what issues are appropriate based upon the list you just talked about, but I think any issues that parties wish to bring up could be brought up during the 60 to 90-day period.

We recently went through a similar situation in the state of Wyoming where we had a deferral mechanism established that later allowed for review of all the type of factors that you elicited just a minute ago, and I think it's a reasonable approach for dealing with the ultimate recovery level of the deferral.

MS. DAVISON: Thank you.

JUDGE MOSS: Okay. Redirect?

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

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

BY MR. VAN NOSTRAND:

Q. I'd like to start off with a question that you just discussed with Ms. Davison. Let me direct you to your rebuttal testimony, page two, lines seven to eleven. When you discussed the review period, did

you contemplate that that process would consider just the auditing and proposing of adjustments or disallowances?
     A.   Yes.
     Q.   And you did not mention anything in there in terms of sharing mechanisms or fairness or equity issues in determining the amounts that would be deferred; correct?
     A.   That's correct. I would also add that, you know, from my perspective, the company has already, you know, shared a significant amount of costs that would have normally been borne by Washington customers through the $98 million of unexpected excess power costs that occurred during the power crisis. I think, you know, the company has -- well, I think the customers have benefited greatly from the rate plan that we're currently operating under.
     Q.   There's been some discussion of the Oregon rate case figures versus the figures in this case used for purposes of calculating the deferral. There is a difference in the periods between the test year in the Oregon rate case and the deferral period in this case; correct?
     A.   That's correct.
     Q.   And what are the periods you used with

respect to each?

A. The deferral period goes from June 2002 through May 2003. The Oregon rate case we just talked about as a fiscal '04, it goes from April '03 through March 2004, so the periods are substantially different.

Q. I'd like to cover some of the issues Judge Moss had on the use of budgeted data. When you refer to when the deferred amounts are known, are you talking about replacing all the data in this Exhibit 160, for example, with actual figures once they are known?

A. Yes.

Q. So while this Exhibit 160 has actuals through December and then projections through the remaining of the deferral period, once all the deferred amounts are known, these will be all actual figures; correct?

A. That's correct.

Q. And the deferral won't be based at all on budgeted amounts -- the calculation of the deferral will not be based on budgeted amounts, will it?

A. No, it won't.

Q. I'd like to review some of the cross-examination exhibits that were put in through

you. If we could turn to Exhibit 64, Exhibits 64, 65
and 66 are responses to data requests from the
Wyoming rate case; correct?
A. That's correct.
Q. And they discuss an adjustment related to
the WAPA buyout?
A. Yes.
Q. Does this particular transaction or
adjustment discussed in these exhibits have any
effect on the deferral or the calculation of the
deferrals in this case?
A. It does not.
Q. Turning to Exhibit 68, which is another
data request response from the Wyoming rate case
discussing the Little Mountain project, could you
indicate what the decision of the Wyoming Commission
was with respect to that particular issue?
A. Certainly. The Wyoming Commission decided
that the company's Little Mountain steam contract was
prudent and they adopted the company's position,
which is contrary to Mr. Falkenberg's position in
this case.
Q. Finally, with respect to Exhibit 69, which
seems to discuss the impact of Gadsby on the
calculation of net power costs, how does the study

that's discussed in this particular exhibit compare with the analysis that was discussed with Mr. McDougal this morning in Exhibit 80?

A. Well, it's glaringly different for one large reason, probably two reasons. The exhibit discussed in this data request inadvertently did not include the transmission benefits associated with the acquisition of Gadsby, the firm transmission, ability to avoid the firm transmission from SP15 to Mona, and secondly this analysis was only for a six-month period whereas Mr. McDougal's analysis was for a full one-year period.

MR. VAN NOSTRAND: Thank you. I have no further questions.

JUDGE MOSS: All right. Then I believe that will complete our examination of this witness. All right. Mr. Widmer, thank you very much. We appreciate your testimony in the proceeding, and you may step down.

THE WITNESS: Thank you.

JUDGE MOSS: I believe we had agreed that Mr. Falkenberg would be our next witness.

MR. CEDARBAUM: Your Honor.

JUDGE MOSS: Yes, Mr. Cedarbaum.

MR. CEDARBAUM: Since the company has

finished presenting its direct and rebuttal cases, Staff, I believe joined by Public Counsel and ICNU, have a motion prior to the remaining testimony.

JUDGE MOSS: All right. Well, we'll just let Mr. Falkenberg relax for a few minutes, then, while we hear your motion.

MR. CEDARBAUM: The motion, in essence, is a motion to dismiss -- actually, it's not in essence, it is a motion to dismiss the company's petition in this matter. And the basis for the motion is that the company's case is based upon a request of this Commission to allow it to set up deferred accounting for its excess net power costs and to provide what the company's called a limited form of rate relief in order to recover those costs.

The fundamental issue that underlies that and that underlies a lot of the issues that have come before the Commission is whether or not the company has met the interim standards under the PNB test in order to be given that account deferred accounting treatment and the limited form of relief that they have requested.

And the company's case, as we have heard over the past couple days, as prefiled, was intended to provide evidence of meeting those interim standards under the PNB test.

The presentation the company put on yesterday and today, after cross-examination, shows clearly the company has not met its burden of proof. The PNB test -- essentially, there's a six-part test, but it essentially boils down to the notion that a company meets the need for emergency rate relief if it cannot finance on reasonable terms in order to meet its public service obligations.

The record was clearly set forth by Mr. Larsen yesterday that the company can finance on reasonable terms to meet its public service obligations. It finances on a total company basis, it has an A credit rating on a total company basis, and that's the basis on which it enters the financial markets to borrow money. And Mr. Larsen admitted yesterday that the company cannot meet the interim tests under a public company basis and can finance on a total company basis. So clearly the company has not, on a total company basis, met the interim standards, which we believe is the appropriate analysis.

Now, the company will say, Well, we've put out Washington-allocated results, which show -- which have a different depth of showing. They show that our earnings are down on a Washington stand-alone basis and that we do meet the interim standards on that basis.

Well, again, that doesn't portray reality. Reality is that the company doesn't finance on a Washington stand-alone basis, it does not enter those markets on a Washington stand-alone basis, its credit rating is not established on a Washington stand-alone basis, and also it is -- the Washington-allocated results are based upon an allocation methodology of the modified accord methodology, which this Commission has never accepted for ratemaking purposes.

So there is no -- not only does the Washington stand-alone basis not portray the reality of the company's financial situation; it really -- the company's presentation has not demonstrated any reasonable method of calculating or determining what the Washington-allocated results would be, even if that was the appropriate test.

So in closing, the testimony, giving full weight to the company's evidence and putting it in the light most favorable to the company, is the company hasn't met its standard under the PNB test. Whether we're looking at how the rate plan might be interpreted or not, it hasn't carried that burden of proof, and that is the basis upon which they have asked for this form of limited relief.

So we see no reason to prolong this proceeding by having additional testimony from other witnesses, and we're asking the Commission, I guess, to decide that fundamental issue and dismiss the company's case in this regard. Thank you.

JUDGE MOSS: All right. Let's hear a response.

MR. VAN NOSTRAND: Well, not surprisingly, this is, of course, a complete surprise to the company. I guess I'm shocked that, at this point, we would take away this ultimate issue from the Commission's determination.

We feel that we have put on a case which in good faith addresses the interim standards, and I think Chairwoman Showalter indicated yesterday, you know, it wasn't all that clear that we needed to make that showing, and frankly, based on the discussions we'd had over the years about dealing with the excess power cost issues, we decided the best approach in this case was to take a run at addressing the interim standards, put on that case, because we felt that would basically overprove or at least address the issue that had been raised in terms of the interim standards under Section 11 of the rate plan, and that's the reason that we went down that path.

We believe we have made a prima facie showing that we met those standards, and frankly, the evidence that Mr. Larsen put on and the evidence that Mr. McDougal put on regarding the company's financial results have, for the most part, gone completely unrebutted by the Staff and ICNU cases, so I'm not surprised they're moving to dismiss, because they really haven't provided any evidence to refute that financial testimony.

Now, in terms of the issue of whether or not it's proper for this company to come before the Commission and present Washington-only results, I think the suggestion that this company should have its rates set in Washington on the basis of a total company basis, without looking at Washington-only results, represents a shocking disregard of fundamental cross-subsidization issues that Washington will be able to bootstrap on the extensive rate relief that has been provided by other states, Oregon, Utah, Wyoming, Idaho, even California, and that we can't address the issues of inadequate rate relief in Washington because other states have stepped forward during and since the energy crisis to grant this company rate relief.

And the position of Staff on the motion to dismiss would basically preclude us from making that showing because other states have stepped forward. And it's -- I'm just -- well, it's -- in terms of -- it is frustrating that our financial testimony really has not gone addressed because of -- because what I would say is a technicality that we don't need to look at your intracompany, your intrastate result, because, total company, you're doing fine. Why? Because other states have stepped forward and provided the necessary rate relief.

I think another point that needs to be raised in terms of why this shouldn't be taken from the hands of the Commission, I think Chairwoman Showalter indicated yesterday that of course the Commission, on its own, could break open the rate plan based on the financial testimony that the company has presented here regardless of what is required under Section 11.

So to take away from the Commission the possibility that our testimony would be considered as the basis for breaking open the rate plan, that motion to dismiss would remove the ability of the

Commission to do that. So for all these reasons, we believe that it is completely without merit to suggest the case should be dismissed at this time.

JUDGE MOSS: Thank you.

CHAIRWOMAN SHOWALTER: I just want to interject that my questions aren't testimony here and they're often designed to get the witnesses to elucidate certain issues.

JUDGE MOSS: What's your preference? Do we want to retire to another room? We will come back before the -- or should we just break now for lunch? All right. We'll take the motion under advisement over the luncheon recess, and we're going to continue that recess until 2:00 this afternoon. So we'll see you all back here at that hour.

MS. DAVISON: Your Honor, the difficulty is Mr. Falkenberg's flight schedule this afternoon. Is there any possible way we could quickly proceed with Mr. Falkenberg before lunch so that he may be able to catch his flight back to Atlanta?

JUDGE MOSS: I don't see how we could complete Mr. Falkenberg before lunch, if Mr. Van Nostrand's estimate of cross-examination time of 60 minutes is anything approaching reality. There's other business scheduled during the luncheon recess.

MS. DAVISON: I believe Mr. Van Nostrand had revised it back to around 30 minutes.

MR. VAN NOSTRAND: In light of the motion, I'm not sure I would continue that downward revision, Your Honor. We'll be using Version B.

CHAIRWOMAN SHOWALTER: I just want to ask Mr. Falkenberg, we had thought that as long as we had you on the stand today, that would be sufficient for your travel purposes, and I wasn't aware that we really needed to get you on this morning, but -- maybe we should go off the record.

JUDGE MOSS: Maybe we should be off the record. Thank you.

(Discussion off the record.)

JUDGE MOSS: Okay. Let's be back on the record. As far as the motion to dismiss, the Commissioners have deliberated on that motion and it is denied. We will go forward with our case. Now, let's be off the record.

(Discussion off the record.)

Whereupon,

RANDALL J. FALKENBERG,

having been first duly sworn by Judge Moss, was called as a witness herein and was examined and testified as follows:

JUDGE MOSS: Thank you. Please be seated. Okay. If you want to go ahead and put your witness on, Ms. Davison, and once he is available for cross, then we'll break at that point and resume with the cross at 2:00.

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

BY MS. DAVISON:

Q. Mr. Falkenberg, could you state your full name for the record, please?

A. Randall J. Falkenberg.

Q. Are you the same Mr. Falkenberg who has submitted testimony -- prefiled testimony in this case on behalf of the Industrial Customers of Northwest Utilities?

A. Yes.

Q. And do you have any corrections to the testimony that you have submitted --

A. No.

Q. -- prefiled?

A. No.

JUDGE MOSS: For the record, that's Exhibit 140-C?

MS. DAVISON: That's correct.

Q. And to the best of your knowledge, the answers that you had provided on a prefiled basis are still true and accurate today?

A. That's correct.

MS. DAVISON: Your Honor, I would move the admission of Exhibit 140-C through Exhibit 145.

MR. VAN NOSTRAND: No objection.

JUDGE MOSS: There being no objection, those exhibits will be admitted as marked. And is your witness available for cross-examination?

MS. DAVISON: Yes, he is, Your Honor. Thank you.

JUDGE MOSS: All right. With that, we'll have our noon recess, and we will resume at 2:00. And Mr. Falkenberg, I will say that we appreciate you accommodating the needs of the case.

THE WITNESS: Thank you, Your Honor.

(Lunch recess taken.)

JUDGE MOSS: Let's be on the record. Off the record, Mr. Cedarbaum indicated to me that he would like to have some clarification from the bench concerning his denial of the motion that was made just before the luncheon hour.

I will do that to the extent of saying that the denial was what it was, a denial of the specific motion, and you shouldn't read anything into it in terms of the Commission having made some decision on the merits of the case. The Commission's options remain as they were at the outset in terms of disposing of the case, which includes quite a range of possibilities, I suppose, so it's simply a denial of the motion.

MR. CEDARBAUM: Thank you.

JUDGE MOSS: All right. Mr. Falkenberg has been put on direct and has been tendered for cross-examination, so Mr. Van Nostrand, will you be doing the cross?

MR. VAN NOSTRAND: I will, Your Honor.

JUDGE MOSS: Okay. Go ahead.

MR. VAN NOSTRAND: Thank you.

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

BY MR. VAN NOSTRAND:

Q. Good afternoon, Mr. Falkenberg.

A. Good afternoon.

Q. I'd like to start out with your discussion of the interim standards under the PNB decision, which you discuss at pages six to ten of your testimony.

A. Yes.

CHAIRWOMAN SHOWALTER: Exhibit number?

JUDGE MOSS: 140-C.

MR. VAN NOSTRAND: 140-C.

Q. And it's fair to say you take the position in your testimony that the company's failed to show that a financial emergency exists or that relief is needed to prevent a gross inequity; is that a fair statement?

A. That's correct.

Q. And in support of the statement, you cite your table one on page eight of your testimony. This is entitled Summary of PacifiCorp ROE Per Rate Plan; correct?

A. Yes.

Q. And in data requests to you regarding your testimony, we asked you for supporting work papers for this table; correct?

A. That's correct.

Q. And do you recognize those supporting work papers as Exhibit 147 to this response to Data Request 1.5?

A. I believe that represents a printout of the work papers. I believe I provided a diskette that had the spreadsheet that had the formulas that those calculations were performed using.

Q. Okay. Now, turning to your Table One --

COMMISSIONER HEMSTAD: I have a question. Was that Exhibit 147?

MR. VAN NOSTRAND: Yes.

COMMISSIONER HEMSTAD: I have only one piece of paper in that.

MR. VAN NOSTRAND: That's all that was printed out when we hit the print button.

COMMISSIONER HEMSTAD: Thank you.

MS. DAVISON: Although, just so the record's clear, in response to that data request, Mr. Falkenberg provided an electronic diskette that had a lot more work papers and backup to this chart, which is not here in paper form.

MR. VAN NOSTRAND: And I can represent that I printed off everything that was included on the diskette that Mr. Falkenberg provided. And this is the extent of the work papers we received supporting Table One.

THE WITNESS: Just to be clear, I think I can help clarify things. This is a very simple analysis. The work papers just simply provided the formulas that were used, and it was really just more or less an interpolation type thing.

MR. VAN NOSTRAND: I'm prepared to proceed on this on the basis of what was provided as 147.

Q. Turning to the first -- the first column in that table, entitled the Per Filing Test Year, now that shows the 185 million in test year revenues from the company's 1999 rate filing; correct?

A. That's right.

Q. Now, is that a test year that was historical 1998, or were there adjustments made to that test year?

A. It's my recollection that that included the adjustments that the company made.

Q. And I believe, continuing down on your first column of this Table One, you show the $25.8 million rate increase that was requested by the company; correct?

A. That's correct.

Q. And the bottom line of that table shows that had the company received the $25.8 million requested, it would have earned a return on equity of 11.0 percent based on the test year data as normalized; correct?

A. Yes.

Q. And then you also refer to the actual return during the test year as being 5.6 percent; correct?

A. That was the return before the increase, yes.

Q. And you indicate that in your testimony, page eight, line ten, The company's filing in 1999 indicated an earned ROE of 5.6 percent; correct?

A. Yes.

Q. Now, if we move over to the next three columns on the table entitled Per Stipulation, the first column, labeled 2001, that's intended to reflect the three percent increase granted the company under the rate plan; correct?

A. Yes.

Q. And this increases revenue by $5.6 million, which is what you show in your second line; correct?

A. That's correct.

Q. And so in order to get the revenues in the first line, we just add the $5.6 million to the $185 million that we had on the first column; correct?

A. That's right.

Q. And then, going down to the bottom line, you show an ROE of 6.8 percent; correct?

A. That's right.

Q. Now, when calculating this ROE, you basically hold the expenses constant, correct, and you just add the $5.6 million to revenue and it drops to the bottom line?

A. That's right.

Q. And if we continue on this table, calendar year 2002, or Per Stipulation 2002, I take it we show -- the increase there is $5.7 million, and that represents the second three percent increase under the stipulation?

A. Yes.

Q. And so you, for purposes of revenue figures, then you just add that $5.7 million figure to the $190.6 million figure from the previous year, and then we get total revenues of 196.3 million; correct?

A. Yes.

Q. And there, again, in calculating the return on equity shown on the bottom line, you assume that the increase in revenue merely drops to the bottom line and expenses are again held constant; correct?

A. That's correct, although I do believe there's a provision for tax increases built into this in the way in which the spreadsheet's put together.

Q. Then if we go to the final column, 2003, you show another $2.0 million revenue increase; correct?

A. That's right.

Q. And this represents the 1.6 percent

increase the company was granted under the rate plan?
A. That's right.
Q. So we just add that $2 million to the revenues from the preceding year, which produces revenues of $198.2 million; correct?
A. That's right.
Q. And following the same pattern, that $2 million drops to the bottom line, so the ROE per stipulation goes to 8.4 percent; correct?
A. That's right.
Q. And once again, expenses are held constant for purposes of this analysis?
A. Except, as I say, for the tax impact.
Q. What tax impact are you referring to?
A. Well, in order for the company to get the 11 percent ROE based on the 25.8 million increase, there would be a tax effect built into that. I just simply used that ratio of whatever the cumulative increase is to 25.8 to get the increase in the ROE.
Q. This is like a gross-up type of adjustment?
A. Right.
Q. Okay. So when you prepared this Table One, is it fair to say that the only variables you changed were the revenue line, and that those changes flow directly to the ROE shown on the bottom line?

A. That's right. It's very similar to Judge Moss's question of Mr. Larsen, I believe yesterday, where he talked about how the company started out with a 5.6 percent return, they asked for 26 million, they got about half of that, so it takes into a rate of return that's about halfway between 5.6 and 11, which was requested. That's basically what I was trying to show here.

Q. But your table implicitly assumes that for 2001, 2002 and 2003, that expenses remained entirely unchanged?

A. That's right, because it's all based on the 1999 rate case test year, which, until we have another rate case, we would have to assume remains in effect.

Q. But this table does not reflect any of the actual increased power costs associated with the Western energy crisis for 2001, for example, does it?

A. No, I was trying to show what would have been expected based on the factors that were embedded in the stipulation at the time upon which it was agreed to.

Q. And so the power costs that would be assumed in your Table One would be the company's normalized power cost for the 1998 test period?

A. 486.7 million.

Q. Now, did you do any comparison of the company's actual expenses from its results of operation reports filed with the Commission to determine whether the assumption implicit in your table is correct, that the company's expenses did not change during these three years?

A. That wasn't the assumption implicit in my table, but I didn't do that sort of a check.

Q. Well, turning to the revenue line of your table, the revenue line does nothing to take into account the actual changes in the company's retail load in Washington since the stipulation was signed, does it?

A. That's correct, because the stipulation did say that we would use the same billing determinants for future rate increases. So for purposes of computing the rate increases that the company was allowed during the rate plan, it used the same billing determinants as the '99 rate case.

Q. You were present yesterday when Mr. Cedarbaum had a discussion with Mr. Larsen regarding the issue of retail loads in Washington?

A. Yes.

Q. He established, did he not, that retail loads in Washington have declined since 2000?

A. I recall that, yes.

Q. Now, your revenue figures for 2001, 2002 and 2003 would not reflect these actuals declines in retail loads since the stipulation was signed; correct?

A. No, as I indicate, the purpose of the table is to show what PacifiCorp would have and could have expected at the time of the signing of the stipulation holding conditions constant.

Q. Holding expenses constant?

A. Holding the conditions constant pursuant to the stipulation.

Q. And holding revenues constant, except for the precise increases allowed under the stipulation without looking at what actual revenues were?

A. That's right. I'm assuming PacifiCorp did not have a crystal ball that was perfect at the time that it signed the stipulation, but that in order to get a handle on what kind of ROE they were actually agreeing to, that they would have or could have performed this kind of analysis.

Q. Analysis that showed that their expenses would remain constant for 2001, 2002, 2003?

MS. DAVISON: Your Honor, I object. Mr.

Van Nostrand has asked this question repeatedly of the witness about his assumptions regarding expenses, and I believe that Mr. Falkenberg has very adequately explained the purpose of this chart.

MR. VAN NOSTRAND: Your Honor, I'm exploring Mr. Falkenberg's most recent statement, which is that the company must have performed such an analysis like this when it decided to enter into the stipulation. It's an entirely different question.

JUDGE MOSS: I think the question was different, and the objection is overruled.

THE WITNESS: Could we go back to the question, then?

Q. Yeah, are you saying that the company would have performed an analysis when it decided to enter into the stipulation that would have assumed, as your table does, that expenses don't change for 2001, 2002 and 2003?

A. All I'm saying is that the company could have and should have done an analysis like this to see what the implications would be for return on equity, assuming everything holds constant. I assumed that the company did lots of an analyses at the time that they negotiated this to decide what they could get, whether they might find this acceptable or not, but what I'm saying is that if you look at the terms and conditions of the stipulation and the test year which we had, which is all we really have to go on, that this is the implications for return on equity based on the factors that we know from the stipulation.

Q. But what value would there be in performing an analysis that holds expenses constant for three years?

A. The company agreed to a rate plan that spanned a period of five years. I would assume that they believed that the assumptions upon which the rate plan were based would remain applicable for some period of time.

Q. And so it's your testimony that the assumptions upon which the rate plan were based was that expenses would not go up for three years?

A. I'm not saying that. What I'm saying is that this is a representation of what the rate of return would be with the scheduled increases that were to take place based on the test year which was used.

Now, the company wants to use the test year figures, for example, in this case for the purposes of computing the baseline for the deferral, so the company is willing to accept the test year for certain types of items.

And all I'm saying is, given the test year that you had, given this schedule of increases, what kind of ROE would be expected? Now, if the company could cut expenses, then it would do better. If its expenses went up, then it would do worse. So this is sort of a point of reference of where the company could expect to be.

Q. I guess I'd like to go back to your testimony where you discuss this table. And you say on page seven, line 17, that this table represents a calculation of the ROE PacifiCorp agreed to. Now, when you say agreed to, you mean the calculation of ROE where you hold the expenses constant and reflect only the revenue increases associated with the periodic rate increases?

A. That's right, because remember that in the process of ratemaking, until we have a different test year, what remains in effect is the results from the last test year. And so the company, in agreeing to utilize this same test year in this schedule of increases for a period of five years, was agreeing to the conditions set forth. It was agreeing that that test year would be representative for a number of years in the future.

Q. Well, continuing down on page seven, you say that you computed the ROE for each year of the rate plan based on the figures for the rate case provided by the company. There is not anything in this table other than column one that represents a rate case figure provided by the company, is there?

A. Columns two, three, and four are the table -- the figures from the stipulation, which are the result of the settlement of the rate case.

Q. But they weren't part of the company's -- the company's rate case filing, were they?

A. I assume not. I mean, the final order of the rate case is not ordinarily part of the filing.

Q. Well, when you use the term on figures from the rate case provided by the company on page seven, lines 19 to 21, you're not suggesting that the company had such an analysis that it provided in the rate case, are you?

A. What I'm suggesting is that the figures for the revenues, the increase, the return on equity and that sort of thing, the first column came from the rate case, the next three columns follow from the stipulation.

Q. And I think you indicated this is just a

simple mathematical exercise of increasing revenues by three-three-one, adding it to the top line, and calculating return on equity on the bottom line, assuming it's just a mathematical exercise; correct?
A. Yes, the purposes is simply to show what would be the point of reference for return on equity assuming conditions hold constant in the future. To the extent the company could do better, it could earn better returns; to the extent that it did worse, it would earn poorer returns.
Q. When you use the term figures for the rate case provided by the company, you're not suggesting that these are the returns suggested by the company's own analysis, are you?
A. Well, the company requested an 11 percent return on equity. It settled for something that added up to approximately half of that amount.
Q. But are you suggesting that this is -- these are the figures, return on equity of six-eight, seven-nine and eight-four, that are suggested by the company's own analysis when it entered into the stipulation?
A. I don't know. The final figure strikes me as being very close to what Mr. Larsen discussed yesterday with the Judge, based on the same kind of

analysis.

Q. And this is the -- this is the figure on page eight, when you make the reference if the company earns an ROE one percent lower than allowed by the Commission? Is that the reference you're making?

A. That's right.

Q. And one percent difference you're talking about is the 6.9 percent referred to in Mr. Larsen's testimony and the 7.9 percent that you show for 2002?

A. That's right.

Q. And in arriving at that seven-point or 6.9 percent figure, did Mr. Larsen hold the company's expenses constant?

A. No, I believe that Mr. Larsen's 6.9 percent figure reflects more current data. So what it would tend to show is that the company didn't do quite as well in actual practice as they might have expected based on the rate plan that they agreed to.

Q. And this table represents the extent of your analysis supporting the statement that the company's earning an ROE one percent lower than allowed by the Commission; correct?

A. This table is the evidence that supports that, yes.

Q. And you haven't calculated the company's earned returns under any approach other than what you've shown on this Table One; correct?

A. That's right.

Q. If we go on to page nine, you say, The mere failure of PacifiCorp to achieve these levels by a small margin is not sufficient to allow interim relief. That's on lines six, seven and eight. When you refer to a small margin, the analysis you're relying on to support that statement again consists of this Table One; correct?

A. That's right.

Q. Now, you make the statement on page eight, line one, based on what the company should have expected to earn. If you could refer to Exhibit 153.

MR. VAN NOSTRAND: I believe, Your Honor, this has been admitted also as Exhibit 12. This is the response to the company's bench request seven.

JUDGE MOSS: You're saying this exhibit is already in the record as number 12?

MR. VAN NOSTRAND: Yes.

JUDGE MOSS: All right. Then we'll just eliminate 153. It won't need to be offered, and we'll just refer to it as Exhibit 12.

Q. Now, if I could refer you to the second paragraph of the company's response in there, the sentence, Moreover, these early year expenditures are costs to achieve that will produce savings in later years, making it difficult to match costs with savings during any particular year of the transition period.

Doesn't that indicate that the company expected these costs to achieve to be incurred during these early years of the rate plan stipulation?

A. That's what it says.

Q. And did you take that into account when you stated in your testimony on page eight that these are the returns the company should have expected to earn, that they would be incurring these costs to achieve in the earlier years under the transition plan?

A. I didn't factor this in, but it would have been pointless to do so, because all I was trying to establish here was what would be the implication of the rate plan for earned or allowed rate of return holding conditions constant.

Now, I fully expect that the company had reasons to believe that they could try to do better than this, but the point is that this is what the rate plan implied based on the test year that we had. We didn't have the actual test year that might apply to some future period of time. Had we done so, perhaps we would have had a totally different rate plan. We had one rate plan, one test year.

Q. But your testimony here is what the company should have expected to earn, and doesn't the response to bench request seven indicate, as far as what the company expected to earn, the transition plan costs to achieve would be incurred in the early years and therefore depress returns in the early years?

MS. DAVISON: I object to the question on the basis of -- two bases, actually. One is that Mr. Falkenberg didn't answer bench request number seven, so he doesn't have the ability to know what was in the company's mind with regard to its expenses and what it expected to earn.

Secondly, Mr. Falkenberg has spent virtually his entire time on the witness stand explaining over and over again what his chart is intending to show, and I believe that he has adequately answered those questions about his chart.

MR. VAN NOSTRAND: Your Honor, my testimony is directed at the discussion of the company should have expected to earn. And we don't need to speculate about what the company should have expected to earn, because we have responses from the company's case where the company expressed what its expectations were in terms of what was going to happen under the transition plan, and my question is was this response taken into account when Mr. Falkenberg makes representations about what the company should have expected to earn.

JUDGE MOSS: I think it will save time -- oftentimes, when objections are made, I can rule on them without hearing a lot of colloquy back and forth in terms of argument about the motion. If I find the objection one that is marginal or questionable, then I will ask for Counsel to address the point, but in this instance, it's easy enough to overrule the objection.

I think the question is developing a broader understanding of Mr. Falkenberg's testimony on this point, and I sense my own understanding developing as I listen to his responses, so I will overrule the objection and allow the witness to answer the question.

THE WITNESS: If I recall the question correctly, it was did I take into account this document in the preparation of Table One, and I believe the answer is no, I did not.

Q. Were you even aware of this document when you prepared your Table One?

A. I don't recall seeing this document until it was introduced as a cross-examination exhibit.

Q. Would you agree this document tends to bear on the question of what the company should have expected to earn as you use that term in your testimony?

A. The document doesn't really provide much in the way of evidence, because it doesn't indicate whether we're talking about $1 or $10, a million dollars, $10 million. It really is very nebulous.

Q. Let's turn to Exhibit 154, Mr. Falkenberg. If you'd refer to the last paragraph of that document.

CHAIRWOMAN SHOWALTER: Sorry, what was that?

JUDGE MOSS: 154.

MR. VAN NOSTRAND: The response to bench request 11.

Q. Directing your attention to the sentence, That statement reflects the expectation that earnings may be at the lower end of the range of reasonableness in the early years of the rate plan period and at the higher end in the later years given that the costs to achieve expenditures will be made in the early years under the transition plan to produce savings and operating costs and capital expenditures in subsequent years. Do you see that?

A. Yes.

Q. Were you aware of this document when you prepared your Table One?

A. No.

Q. Doesn't this document tend to bear on what the company should have expected to earn during the rate plan period?

A. Well, I would make the same comments as with respect to the prior document, in that this doesn't really shed much light on anything. It does indicate, as my table shows, that the company hoped for an improving trend in earnings, it apparently has not achieved that to its satisfaction, and that's why we're here.

Q. Well, had you -- but this does, in fact, suggest something as to the magnitude of these expenditures to the extent we're actually talking about impact on earned returns, aren't we?

A. It doesn't indicate any level of impact, as far as I can tell.

Q. The lower end of the range of

reasonableness in the early years of the rate plan and higher end -- it's your view that doesn't express anything one way or the other about the magnitude of expenditures under the transition plan?

A. If someone can define for me what the range of reasonableness of rate of return is, then perhaps it would, but in the number of years in which I've been involved in this, it seems to me that that's something that is widely debated.

Q. But we can say that you did not take into account any of these costs to achieve when you prepared your Table One; correct?

A. No, and I don't believe that I would have had I even seen it, because it would not really have a bearing on what I was trying to demonstrate in Table One.

Q. Getting back to the 6.9 percent figure, the company has submitted testimony that its earned return was 6.9 percent, and that these returns are expected to decline, as shown in Mr. Larsen's Exhibit 3, to deteriorate through the remainder of the rate plan period. Are you aware of that?

A. Yes.

Q. Other than your Table One on page eight, do you present any testimony that shows the company's return on equity will be any different than what the company has presented in Mr. Larsen's testimony and exhibits?

A. Well, I believe that the testimony that I have presented calls into question the forecasts and projections upon which the company has developed its projections that were shown in those exhibits, and I do believe that I've pointed out a number of problems in those projections. The most serious problem being, I believe, the fact that they are not based on the same sales levels as were used in the 1999 rate case, so I don't believe that the projections are really pertinent for that reason.

Q. If the Commission were inclined to apply the interim rate standard and considered return on equities, are you suggesting that your Table One is the type of analysis that should be held up alongside the analysis presented by Mr. Larsen in his testimony?

A. Well, I certainly think the Commission should take a look at my Table One and ask itself if this is not a good representation of what the company might have expected based on what it agreed to, when it signed off on the rate plan, and that it should have looked and said to itself, Well, if we don't do any better or worse than we are doing today, this is where we will be. And I think that's something that the Commission really ought to consider.

I mean, that's a common way of doing an analysis, is to hold current conditions constant and then trend out whatever agreements or whatever you've got to try to see what happens if conditions remain constant. And I think that that would be a reasonable basis for the Commission to consider.

Q. You're saying it's a common form of analysis in determining whether to land on a multi-year rate plan to project current conditions forward, rather than perhaps looking at whether expenses might go up?

A. Well, I believe that the impression one gets from looking at 153 and 154 is that the company had an expectation that expenses would go down, but the point is that the company may have had hopes that expenses would go down and revenues go up and that sort of thing, and that the purpose of the kind of analysis I did is to say if we do no better or worse than we're doing today, where are we going to be in one year from now, two years from now, three years from now, and so on. And in agreeing to the rate plan, I think someone should have asked the question, can we live with that if that's what happens.

Q. Where in Exhibit 153 and 154 does the company -- is it suggested the company thought expenditures were going to go down when the costs to achieve expenditures would be incurred in the early years for the rate plan?

A. Well, I think it talks about an improvement in ROE in the later years, and that the cost to achieve would be in the earlier years.

Q. You don't even show the later years on your Table One, do you?

A. The results would be the same as for 2003.

Q. Because, under your analysis, if we just extend this table out, revenues don't change, so return on equity would continue to be 8.4 percent, because expenses don't change; right?

A. As I indicated, the purposes of the table is to take a look at what the company was agreeing to when it signed off on the rate plan. This table shows what the results would be expected to be if the company did no better or worse than it did at the time of signing off on the rate plan.

Q. You have some other testimony that discusses the PNB standard. Would you agree that the PNB standard also talks about a number of financial indices, including rate of return, but also interest coverage -- pre-tax interest coverage demands for new financing?

A. That's right.

Q. And the company says, based on its financial projections, its pre-tax interest coverage is unacceptably low and gets progressively worse during the rate plan period. That's Mr. Larsen's Exhibit 4.

Do you present any testimony that shows the company's pre-tax interest coverage will be any different than what the company's presented in Mr. Larsen's Exhibit 4 and discussed in his testimony?

A. That is not an analysis that I performed. However, I do believe that the analysis that I did perform calls into question the power cost assumptions that are built into Mr. Larsen's projections.

Q. Your analysis of Table One on page eight doesn't show anything in the way of pre-tax interest coverage, does it?

A. No.

Q. And if the Commission were inclined to apply the interim standard, you've not provided any alternative financial analysis, have you, that would inform the Commission about the company's pre-tax interest levels, either now or during the remainder of the rate plan period?

A. I have not presented any alternative financial projections, other -- I have not. All I've done is suggest that I have problems with Mr. Larsen's projections.

Q. If we turn to the issue of cash flows for Washington operations, where Mr. Larsen suggests that they are unacceptably low and they will deteriorate further during the rate plan period, did you present any testimony that shows that the company's cash flows for Washington operations would be any different than what the company's presented in Mr. Larsen's testimony and exhibits?

A. I believe, again, that the projections upon which Mr. Larsen bases those analyses are called into question by my testimony.

Q. You have not prepared any separate analysis which shows a competing set of figures for the Commission to consider with regard to cash flow; correct?

A. That's correct, because as I indicated in my testimony, the projections deal with a period beyond the time frame in which the company is seeking relief and are really, I believe, largely are irrelevant.

Q. As far as capital requirements, where the company similarly presented testimony regarding its capital requirements, is it fair to say that you have not presented any alternative or competing analysis of capital requirements that the Commission could consider when applying the interim rate standard?

A. That's correct. I -- for the same reasons that I didn't present the other analyses, I didn't present an analysis of that.

Q. And the company says, based on its financial indicators, its bond rating would be BB. Do you dispute that analysis anywhere in your prefiled testimony?

MS. DAVISON: I object to the question on the basis that it is vague. I believe that we heard testimony that the bond rating was actually double A and not BB.

JUDGE MOSS: Overruled.

THE WITNESS: I did not present a competing analysis of the company's bond ratings for the same reason that I didn't present competing analyses of some of the other projections.

Q. Do you agree that the standard is below investment grade?

A. I believe it would be if that were applicable or meaningful.

Q. Do you say anywhere in your testimony that the company's analysis -- that the company has calculated its coverage ratios incorrectly?

A. I believe I indicated that the company has relied on projections of power costs, at least, that are highly questionable.

Q. And have you said anything in your testimony that the company has incorrectly applied its coverage ratio in light of the rating agency's criteria?

A. No, I didn't address that.

Q. I'd like to turn to the portions of your testimony where you discuss a -- the blank check or a prudence or reasonable review -- prudence or reasonableness review. Do you recall your use of the term blank check on page 24, line 19?

A. I see that.

Q. And you were present for the testimony of Mr. Widmer this morning, where he indicated the company's current projection of its actual excess net power costs through December and its projections through the remainder of the referral period to be

$15.9 million?

A. I recall that.

Q. Is it fair to say it's not really a blank check to the extent that we can quantify the deferrals and the process by which those deferrals will be calculated?

A. Well, I think there's certainly room to debate that. First of all, I believe there was discussion this morning about how the number went from something like 12 million to 16 million just in the space of a few months. And the number could go substantially higher.

If you recall from the Wyoming case, for example, there was a substantial debate about whether a major outage like the Hunter outage was covered under a deferral such as the company's requesting. The company took the position in the Wyoming case that an outage such as Hunter was allowed. Other parties opposed that and said that it wasn't really something that was allowed under the deferral. But the company's interpretation attempted, I think, to make that a blank check. The Wyoming Commission disagreed, of course, and disallowed not only the Hunter outage component, but the entire deferral.

Q. And given that outcome, is it fair to say that you really never have a blank check as long as there's Commission oversight and ability to rule on what level deferred costs can be recovered in rates?

A. Well, I guess you don't have a blank check until you have somebody sign it, but I would suggest that you are opening up a lot of areas of potential dispute as to what ought to be included, what should be included, and it's really unknown and maybe even unknowable at this point what all of those items might be. That's what I'm saying is the blank check aspect of it, that we don't really know what we would be agreeing to, necessarily.

Q. Would you agree that, as Mr. Widmer testified, about 60 days after the end of the deferral period, we will know precisely what the amounts eligible for deferral would be?

A. Well, I believe maybe Mr. Widmer testified to that, but we debated those topics in the Wyoming case for well over a year, I believe, after the end of the deferral period. And I would point out to you, as you well know, that the company even added cost to the deferral two months after the end of the deferral period in the Wyoming case. So I don't know that we would know within two months what was eligible for deferral or not. I think that would take a process of review. I think what Mr. Widmer indicated was that it takes two months before the company even knows what the actual numbers are.

Q. Precisely. And we'll know exactly what the actual numbers are two months after the end of the deferral period, won't we?

A. Right, but we will not necessarily know what numbers ought to be included in the deferral until there's some kind of analysis, if we even go that far.

Q. Now, you say on page six -- I believe you're under the impression that it's the company's proposal to preclude any sort of a prudence or reasonableness review. Do you understand from Mr. Widmer's testimony today and from his rebuttal testimony and from Mr. Larsen's rebuttal testimony that it's not the company's intention to preclude a review that would allow consideration of proposed disallowances and adjustments due to imprudence?

A. Well, it certainly was the company's -- let me put it this way. Certainly, when the company filed the case, when we looked at the direct case, we saw no evidence of any procedure being contemplated for this kind of review process. Now, at the 11th hour, Mr. Widmer is talking about some kind of a review process, which I believe he indicated would be conducted in 60 to 90 days, when it of course takes the first 60 days just to get the final numbers. So I'm not sure how comprehensive that could be.

Q. Was there anything in the company's direct case which expressly stated that there would not be any prudence review or any opportunity to propose disallowances with respect to excess net power costs deferred?

A. While the company's case contemplated having a deferral and it contemplated a recovery mechanism by suspending some credits, there was no discussion of any intermediate step. So I don't believe there was anything contemplated by the company. I believe that had we not raised this issue or the parties not raised it, I don't know that the company would have come forth and said, Well, gee, now it's time for our prudence review.

Q. The other thing you say on page 25 along these lines is that this is comparable to a -- you say, I've never heard of a regulator allowing a deferral for a return on equity shortfall. Is that your testimony?

A. That's correct.

Q. When you hear -- you were here yesterday when Mr. Larsen presented a calculation showing that if the company received the entire amount it is requesting, which at that point he thought was 17.5 million, that would produce a 200 basis point increase; correct?

A. Well, I found that sort of confusing, because he was talking about that being something spread over the next couple of years, and I believe that Mr. Larsen told Commissioner Oshie that the impact would all be felt in the deferral period. So it seems to be that there's an inconsistency there. But the calculation which I did suggests that it would take the company up to 11 percent ROE, because they would be getting about $17 million. The entire rate plan increase was 26 million. If you add 17 million to the 13 million that you already got, that's $30 million.

Q. So the calculation you're talking about, we're again going back to Table One on page eight?

A. Basically, what I did was I took the 17.5 million and I used some of the figures that were contained in one of Mr. Larsen's exhibits to develop that and added it to the 6.9 percent that he computed.

MR. VAN NOSTRAND: I have nothing further, Your Honor. We'd like to move the admission of Exhibits 146 through 152 and 153. I'm sorry, 154.

JUDGE MOSS: Okay. Hearing no objection, those will be admitted as marked. Any questions from the bench?

CHAIRWOMAN SHOWALTER: Well, I have some questions.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. I had my book open to page eight and your table, although I'm not really sure my questions are specifically about the table. But listening to the dialogue between you and the company, it sounds to me as if you're saying the company made somewhat of a bad deal for itself originally and things have not worked out as well as the company might have hoped, but they've not worked out much worse than they might have expected. And since they aren't in trouble financially in an overall company sense, there's no need to change the deal that was the stipulation. Is that, in essence, your point of view?

A. I think it's pretty close to what I'm saying, Your Honor. I'm saying that the company made a deal, which, I think had they looked at it, they could have seen that there was the potential that they would not earn the rate of return that they might have liked, and that if they didn't do any better over the next several years than they were doing at that time in terms of expenses and revenues and so on, that it would have had returns as I'm showing here on this table.

And so I guess what I'm saying is that if they don't do much worse than this, I don't think that it is really appropriate to give them relief. Likewise, if they did a little better than this, I think parties would be hard pressed to justify asking for a reduction.

Q. All right. Supposing the other states had not done anything since the date we approved the stipulation, then I assume that you would say the company's Washington-only table would be whatever it is, but in that case, would you agree that the company would be in fairly bad financial shape?

A. Well, I think certainly the company has gotten rate increases in other states that have helped it along the way, naturally. I believe I pointed out in my testimony that, at least in some of those instances, that -- for example, I think in one of the Utah increases, they really needed to do something to catch up to where Washington had put them because of the rate plan, because, for example, in the '99 case, Centralia was taken out already in Washington, and yet in the same case in '99, in Utah, Centralia was still included.

So I don't think it's fair to say that Washington has given proportionately less necessarily than other states. I think that I discuss that in my testimony. The '99 increase that we got here in Washington was pretty big, if you look at what they got in some of the other states at that time.

Q. Isn't it the case that the one company that's in six states enters a settlement in one state, it doesn't know really what is going to happen in the other states? Things can't happen simultaneously.

A. I think there's no question about that.

Q. I think what I'm getting at is it seems to me that you are saying, in essence, because -- let me just strike that question.

If the company's rate of return were something like what is on your page eight, Washington only -- well, I'm going to have to strike that question, too. I'm having a hard time formulating my questions.

Well, I'll switch to a different area. Supposing there had been a terrible ice storm in the last year, would you see that as a recoverable expense under a deferred accounting method or not under the stipulation?

A. My reading of the stipulation is that the company would have the right to do deferrals for extraordinary events, and an ice storm conceivably could be an example. I think it is arguable as to whether or not recovery could be granted during the term of the rate plan.

Now, there were certain items, not necessarily ice storms, but that were carved out that we talked about a little bit. One of those kinds of items, perhaps.

Q. Well, I was trying to pick something that wasn't on the list --

A. Right.

Q. -- but that might be the kind of thing that, in other circumstances, companies do come in and ask for deferred accounting treatment for.

A. Right, Your Honor. And I think one thing I would suggest in the case of an ice storm, you know, there is, and I believe there is even mention of it in the Pacific Northwest Bell case, the question of service quality deterioration. Now, if you have the situation of an extremely serious ice storm and if the company were required to make a great deal of expenditures to restore service quality, and in so doing it was placed in a precarious financial position, it would -- then that, I think, would be the kind of thing that might allow you to reopen the plan under the PNB case.

Q. Well, supposing that it isn't financially threatening. Supposing there's an ice storm in the state of Washington that is a big, huge expense for the state of Washington, but doesn't threaten the company's financial status. Would you say that would be permissible for the company to come in and say the Washington rate is too low to cover this kind of thing, and it's true that we can -- we can afford it, but that would be unfair to the rest of the states where this storm did not occur?

A. Well, I think they would certainly have the opportunity to defer the costs under the rate plan, under the terms of -- I believe it's Section Nine. Recovery of that is something that I think the Commission could well entertain.

Q. Either as a surcharge or wait until the next general rate case?

A. Well, I guess the way I would prefer to approach it would be to take a look and see how often does this kind of an ice storm occur. Is this the storm of the century, in which case it's once every 100 years or something, in which case maybe deferring it out for a few years till the next rate case is something feasible. If it's something that happens more commonly, if it were something, say, that happens every year, then I think we would have to say, Well, perhaps that's the kind of thing they should have been aware of as being a risk. So if it's somewhere in between, I guess you've got to weigh all that.

Q. Well, I think in my hypothetical I'm trying to make it the storm of the century, just to remove that question, something that really doesn't happen very often, where the expenses truly are extraordinary.

A. Right, the storm of the century, I think that what you would do is you would recover it over a fairly long period of time because you would believe that this is not the kind of thing that's going to happen very soon again. So you would eliminate the negative earnings effect by allowing the deferral of the expense, and then you would make up the return of that money over some period of time through rates. And given that I think we're talking about the storm of the century, I'm not sure it's going to matter if we wait a year or two before we start recovering it.

Q. Well, turning to the company's actual case, do you agree or disagree that they have been subject to quite unusual events in the purchase cost of electricity? I'm alluding, I think, to the combination of the shutdown and the drought and power costs.

A. I think there's no question that there has been a serious impact on the company's power costs due to the things going on in the market, as well as the specific events, such as the Hunter outage, that created a problem. At the same time, for example, the sale of the Centralia generation asset had a very large impact on all of that, which was a decision the company made.

Q. But the Commission approved that sale?

A. I understand, yes.

Q. Well, is that combination of events something that the company should have anticipated or anticipated that it could happen? Is that an issue for you, or it's that no one could anticipate that particular series of events, but, nevertheless, the company's not doing so badly compared to the stipulation it entered into originally and its status in other states?

A. Well, I think, with respect to that point, that they've largely gotten over that hump. The time period at which we're looking at in this case post-dates the power crisis. The company may have had a much better argument in terms of getting relief had they come in during the time period when that was happening and asked for relief at that time, as they did in other states. They did so in Utah, Wyoming, California, and Oregon. They're not asking for that now. They're asking for costs that have occurred after that. So I would say we really have to judge them on where they are today, exactly where they are today, looking forward, as we would in ratemaking. But I think that's where we really have to judge them, where they are today.

Q. Does it make any difference, in terms of where they are today, as to how they got here? By that, I mean, it seems rational for a company to go to the big states first for some kind of economic relief, since that's going to make the most difference. It also seems rational or maybe just practical not to come to six states simultaneously, since I assume that would be difficult for all the parties involved, except for maybe the individual states.

A. Well, Your Honor, they did go to California during this time period, which is a much smaller state than Washington, of course. And quite frankly, my belief is that they looked at the rate plan and they believed that they were obligated and that conditions at that time didn't warrant breaking open the rate plan. So my feeling is that they didn't feel they met the threshold that was required at that time.

Q. Well, I see. That seems a little at odds with -- maybe it's not your testimony, but, you know, the question, Well, why didn't they come in before when they were losing the 98 million?

A. Well, I guess my point is that I think that was when they had the opportunity, particularly that was when they met the requirement of seeking current relief -- current similar relief in the two largest jurisdictions. When they were doing that was when I believe the window was open for this kind of a request. They did not do so, and it's more speculative for me to say why they did not do so. My belief is that they felt they didn't meet the requirements, but, nonetheless, they missed the opportunity there, I believe.

Q. There's a kind of a gotcha quality about that argument, and maybe it's appropriate, but haven't -- if it would have been permissible for the company to come in at the same time that it was in Oregon and Utah, isn't it the customers who've benefited from the fact that they didn't, assuming that some relief would have been provided, which I realize is a big assumption.

A. Well, I think clearly the customers have benefited from the rate plan, because they have avoided up to this point some of those costs. I don't -- I would not dispute that. The customers did pay for increased rates, the company received benefits in terms of avoiding having to file cases and the expense that was encountered in those kinds of things, and the company would have the benefit of having elevated rates now for a number of the later years of the plan. You know, I think it turns out to be a bargain that was made that the company had the opportunity to do something differently and they did not.

Q. But implicit, I think, in your comment just now is that the company made a bad bargain, especially relative to subsequent events and relative to the rate increases that virtually all utilities in the Northwest have had to impose, multiples of the rate increases here, but aren't you really saying, then, that it's the Washington ratepayers who not only get the benefit from that, quote, mistake or bad luck, but get to lean on the other ratepayers or shareholders of the company?

A. Well, I certainly don't agree with the idea that they're necessarily leaning on the other portions of the company. I think in my testimony I pointed out that, just in the area of power cost, which is what we're really talking about here, that when you adjust for the fact that the load levels upon which the rates are based are lower in Washington than they are in the other states, that when you adjust for that, that the power costs embedded in base rates are about the same in Washington, Utah and Oregon.

And I think that, by maintaining that sort of match between the load levels and the power costs that are in base rates, that that does form a sort of a sense of equality and fairness about it.

Q. I wanted to ask you about the PNB standards. If you have a company in multiple states in bad trouble, doesn't the strict application of the PNB standards imply that whatever states are hit first and take care of the problem, they leave the other states untouched? Isn't that logically true, that if -- and let's say if -- I'm not saying that emergency relief was requested everywhere, but if it is, then a state -- a company can go to Oregon and Utah, that will take care of the problem. The rest of the states are free to lean on those two states.

A. Well, Your Honor, I believe that that is at least part of the rationale behind the fact that in the agreement there was a reopener, and it did say that if you met the PNB standards and you were filing in the other two states, then you were free to file for relief in Washington.

And so I think that it really is up to the company at that point to address this issue of whether one state is leaning on another or not. They certainly had the opportunity, it would appear to me, at that time to have addressed this problem. So I think what we're saying is that if they didn't do so, now they come back a couple of years later, should we look at the fact that we didn't give them something then when they didn't ask for it and try to make up for something that happened in the past, or should we look at what the agreement we have is and where we are at today and use that as the basis?

And you know, I work for clients in all of the states, other than Idaho, I guess, and certainly there's no interest in any of the other clients that I work for in having Washington be subsidized or anything, but I think that there is a recognition that there's a rate plan that was in effect in Washington, there were certain advantages and disadvantages for the company and the customers in it, and I believe the company had an opportunity to address these problems if they were serious.

Q. And just -- I'm trying to think that sometimes the shoe gets put on the other foot. You know, supposing our state or our state's customers were seeming to appear to subsidize another state. I know that doesn't feel so good from the point of view of the customers or the commissions. The bottom line is don't we have some kind of obligation to be fair, within certain constraints and I think paying some serious consideration to prior orders and agreements, but is it sufficient just to sit back and say, Well, you didn't come in a couple years ago and you made this deal and we know you're not really earning the kind of revenues here that could possibly stand on their own, but, nevertheless, we'll let others pick up the slack?

A. Well, it's interesting, because the impression I get from -- and I try to stay out of this argument as much as I can, believe me, but the impression I get is that there is a feel among most of the states that they are subsidizing most of the other states. That seems to be something that is quite commonly thought and believed.

But, again, I think that when it comes to what the company is asking for here, they're asking for some kind of extraordinary relief, they're asking for their interim increased standard under PNB. So I think that goes to sort of the question of the financial emergency aspects of this.

Then there's a whole question of fairness. And I think fairness is a different issue than is the issue of are they in a financial bind at the moment that they need relief from. Now, fairness is something that -- you're quite right. You have to look at how you compare vis-a-vis other states, but you have to look at how do we compare to the agreement that we -- how do we live up to the agreement that we've got. We've got this rate plan. How does that play into our whole long scheme of regulation in this state.

And you know, fairness, I think, is probably a harder thing to determine than financial emergency. Financial emergency, I think, is fairly obvious. They're laying off workers, they're not hiring people, they're stopping construction expenditures and all those things. I mean, PNB did all those things and they were found not to have a financial emergency. And I didn't see in the PNB case the Commission said, But in the matter of fairness, we'll give them that increase.

So I think fairness is something that you can't quantify. Financial emergency, maybe you can. And fairness rests on a lot of things. It rests on your history and your own philosophy, I suppose.

Q. Well, suppose -- I'm not asserting this to be the fact, but supposing there's no financial emergency and the stipulation is the deal, but that the result is a gross inequity of sharing of cost? Would you just say, since we're a small part of their picture, everybody can live with that and we'll maybe even things up next time we do a rate case?

A. Well, I think gross inequity is one thing, and it's my belief that, at least with respect to the current rates that are in effect and the power costs that are included in current rates, that that gross inequity does not exist.

Q. Okay. And you say it does not exist in fact, as far as you know, as distinct from a mathematical calculation of what the company might have expected. What is your basis for saying that there's no gross inequity?

A. I'm comparing the baseline of power cost that was approved in Utah and Oregon with the level of sales that were assumed for rate cases, for those two rate cases where the baselines were established with the level of baseline cost included in Washington. In other words, power costs are higher that are included in base rates in Utah and Oregon. They're including $589 million, whereas Washington has 487 million. But when they calculated the rates in those states, they used loads that were substantially higher than what we're using. So they got higher costs, but they had higher billing units, so the dollar per kilowatt-hour washes out, that -- if you look at how we do it in Washington, I believe that that's comparable. I believe there's an equity about it.

Q. So you are saying the actual real world rates are comparable and not inequitable?

A. That's my belief.

CHAIRWOMAN SHOWALTER: Okay. Thank you.

E X A M I N A T I O N

BY COMMISSIONER HEMSTAD:

Q. First I'm looking at your testimony on page 12 of Exhibit 140-C, and the paragraph at the top of the page, in which you indicate the company's relying on budget data and not from the company's power cost models, but -- and using budget projections.

So I take it they didn't approach the issue that way in California, Oregon, Utah or Wyoming? That's the point of your testimony there?

A. Right. The power costs that the company is talking about here and their projections are based upon budget data. They're not the same kind of thing as they used for rate cases.

Just as one example, we talked about -- I believe Mr. Widmer's testimony has some numbers. I'm afraid they're confidential, but some pretty substantial numbers in terms of power costs. They just filed a case in Oregon which has 610 million, which is substantially different from the numbers contained in Mr. Widmer's testimony, and I believe that that's the difference between rate case type numbers and budget type numbers.

Q. Well, I suppose this would be a question better addressed to the company, but could they have used a power cost model here, or is there some reason why that approach wouldn't work and, therefore, justify using budget data and budget projections?

A. As for why they did that, I don't really know. I asked Mr. Widmer about it, because I had asked him if I could get -- I assumed that they had used the power cost model, and I called him up and asked him for the run, the data. He said, No, that was from our budget. Why they did that, I don't know, but I suspect it's because the power cost model -- I don't know that they can run it out for more than a year, so -- and this goes out several years from what they've done.

Q. And so I take it -- is it your point that using budget data and the budget projections is inherently unreliable?

A. Well, I certainly believe I pointed out some problems with respect to the budget data in, for example, the area of the loads, but right, it's not the same kind of thing as we use for rate cases.

Q. On the next page, page 13, this is a confidential page or confidential data here, but how do you -- let's see. How do you conclude that their net power costs haven't taken into account increased demand? Is that obvious in the numbers?

A. Well, actually, I believe my criticism is the opposite, that the power costs were based on different demands from what was used in the UE-19832 test year, and that that's responsible for a lot of the cost that's shown. And it is obvious from just looking at the numbers.

Q. I see, okay. All right. Thank you. I think you earlier explored this in response to the questions from Chairwoman Showalter, but from your testimony, when you have made various adjustments attempting to do an apples and apples comparison with the other states, and it's really your Exhibit 143, I guess -- 144. Is your conclusion from that that in the various states, once the adjustments are made, that the power costs in the several states are approximately the same? Is that a fair conclusion?

A. Yes, Your Honor. And actually, I believe it's 145 that contains that analysis, but --

Q. Oh, yeah.

A. -- it shows what the Washington power costs are, it shows what Oregon's would be if we had Washington loads, and it shows what Utah's would be with Washington's loads.

Q. And do I take it from that conclusion that the company's overall revenues, then, are roughly equivalent among the states or that they are receiving adequate revenues here or both?

A. Well, basically, what I'm trying to show here is sort of narrow. I'm trying to show what the baseline of power costs included in rates is, and I'm saying that those are pretty comparable among the three states. And that's what the company's asking for relief here, is on the area of power costs, and so I'm saying that I don't think that it's fair to say that Washington is being treated better than the other states.

COMMISSIONER HEMSTAD: I think that's all I have.

E X A M I N A T I O N

BY COMMISSIONER OSHIE:

Q. Mr. Falkenberg, I'd like you to perhaps elaborate a bit on your testimony on page 24. I believe it starts on page -- on line six. And this is in your direct filed testimony, 140-C. And if you would look at that and compare that to your testimony on page 14, line 13 through 15.

A. Okay. So I just want to make sure I have the reference. It's page 14, lines 14 through 16, which is really not a confidential portion, and there I talk about the declining trend in actual power costs.

Q. That's right. Against -- and then if you could elaborate on that statement and your statement on page 24, which seems to be saying that, because of the increased load growth, you know, that has been driving power costs up, yet when compared to what's being stated on page 14, you say they're actually trending down.

A. Right.

Q. So there seems to be -- I'm sure you can explain what appears to be at least some inconsistency in those two statements.

A. Right. I don't think that they're inconsistent. I can see they might be a little confusing, but realize the time frame I'm talking about in -- on page 14 refers to the last 12 months or so. And that goes to my Exhibit 142, where I show the declining 12-month power cost.

Now, if you compare those power costs, even the most recent 12 months, to some earlier time, say 1999, they are higher at a system level. There's no question. They're trending downwards because we're getting out of some of the effects of the power crisis, but they are still higher and likely to be higher. The reason for that is that loads are now higher than they were in 1999. And because loads are now higher, we are seeing some increased cost.

Now, I think actually what we probably have seen was that maybe a year or so ago loads were higher even than they are now, because we're now in a recession and that has moved loads back down somewhat. But costs and loads are still higher I think somewhat today than they were as of 1999, when they did the '99 case. So does that help?

Q. Yeah, I guess it does help. You're not saying that the power costs are trending down for the period 2004, 2005, but that it was only for that period 2002 through 2003, the deferral period?

A. Right.

Q. Have I got that right?

A. Right, we're working out of some of the costs that were incurred during the power crisis, and I think we're getting down to the last remaining parts of that, which are those contracts, I think, that Mr. Widmer talked about. But as we've worked out some of those high cost purchases that they made that persisted in some cases for a couple of years and now they're expiring and that sort of thing, we're seeing a downward trend. Now, there may well, I think, be a long-term uptick again, because load will probably go up.

Q. When you say load will go up, you're talking about loads systemwide and not load in Washington?

A. Right, I'm talking at a system level. Washington loads are not something I've done a forecast of and I don't believe we actually have a forecast of that in this case that I recall. At least I can't point to an exhibit. It may be there, but I just don't recall any exhibits that have that information now.

COMMISSIONER OSHIE: Thank you.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. I just want to check and make sure I've got the right piece of paper. On page 15 of your testimony, line eight refers to an exhibit blank, and it says RJF-3A?

A. Right.

Q. Now, Exhibit 143 is RJF-3, not 3A. Is 3A another exhibit?

A. No, Your Honor, you're right. Exhibit 3 should be RJF -- that should be labeled RJF-3A, and that Exhibit 143.

Q. So Exhibit 143 should be amended to read RJF-3A?

A. That is correct.

Q. Okay.

A. Yes.

COMMISSIONER HEMSTAD: If I can break in there, I think, technically, what we're talking about is -- I had the same problem. What is labeled in exhibits as RJF-3, and in the testimony it's 3A, and which is Exhibit 143. So it's not 143-A, it's 143.

JUDGE MOSS: Correct.

CHAIRWOMAN SHOWALTER: Right.

Q. I also noticed in the company's rebuttal testimony, they all talk about RJF-3A, so it's just that our Exhibit 143 was mislabeled; is that correct?

A. That's correct. It should have been labeled RJF-3A. It was labeled RJF-3.

CHAIRWOMAN SHOWALTER: Well, I wish I had the wherewithal to ask you about some of Mr. Widmer's critique of your calculations, but I find that I don't. So I don't have any more questions.

JUDGE MOSS: Did any of the questions from the bench prompt any follow-up from you, Mr. Van Nostrand, before we return to redirect?

MR. VAN NOSTRAND: Yes, Your Honor.

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

BY MR. VAN NOSTRAND:

Q. Mr. Falkenberg, I'd like to follow-up with a statement that I believe you made in response to a question from Mr. Hemstad, Commissioner Hemstad, and that was there are differences in the loads and the time periods, obviously, when power costs are set in the various state cases, but if you try to put them on a level or a comparable dollar per kilowatt-hour or dollar per megawatt hour basis, Washington's aren't any lower than anyone else's. Is that what you testified to?

A. I think that the easiest thing to do is to take a look at Exhibit Number 145.

Q. Right.

A. And that shows what these other states would be if they were scaled back to Washington level loads.

Q. Well, if we take your Exhibit 145 and we do what I would call a simple mathematical exercise and just divide the annual net power cost figures for each of those states by the test year net system load in each of those states, could we do that exercise, subject -- if I just give you the figures subject to check?

A. Well, that would really be the wrong way to do it, because you would then be effectively pricing out incremental consumption at the average price of energy instead of the incremental cost of energy, which is what I did.

Q. You don't show anywhere on this table the basis on a dollar per kilowatt-hour figure, do you?

A. Well, I think that that really can't be done until you scale the net power costs back, because, in other words, what you would be assuming and the way you want to do it is that if you reduced a megawatt hour, that some of that megawatt hour reduction came from hydro unit and some of it came from a coal unit, when in reality it would be a high-cost purchase or a gas-fired generator that would be backed down.

So really, the appropriate way to do it, I think, is the way that I did it, where I took the baseline built into rates, I scaled it back to the loads that we have in Washington, and then I came up with a total net power cost number. Now, then you could divide that by the Washington loads and come up with a number that I think would differ little from the numbers that we have in Washington. And the percentage differences are shown here. It would be 7.6 percent higher for Oregon and half a percent higher for Utah.

Q. Well, in your Exhibit 145, if you simply took those top two numbers, the 50,277,818 test year net system load, and divided that into the $486.8 million figure for the baseline, doesn't that show a suggested dollars per megawatt hour of 9.68? Would you accept that, subject to check?

CHAIRWOMAN SHOWALTER: Mr. Van Nostrand, can you use the microphone?

Q. Yeah. If we did that?

A. I would accept that subject to check, but I don't think it really demonstrates anything meaningful.

Q. And if we did the same thing for the Oregon figure, and we divided the 589.3 by the test year load in that state, wouldn't that suggest a dollar per megawatt hour figure of 11.08, which is 14.47 percent higher than the Washington figure?

A. I think it probably would, but it's not really a meaningful way to compare it, for the reasons that I already gave.

Q. And similarly, for Utah, if we took the 589.3 million figure and divided it by the net system load used in that case, wouldn't that suggest $11.14 per megawatt hour, subject to check, which is 15.05 percent higher than the Washington figure?

A. I'll accept that, subject to check, but, again, I don't believe it's meaningful and, you know, we argued about this in the Oregon case in coming up with the 589, because that -- we had to come up with an adjustment that brought that down to the load level that was used in that case from the power cost run that the company did, and I think the company eventually agreed with us that the right way to do it was to price it at incremental cost that was built into the model, as opposed to doing it at average cost, which is what you're really suggesting here.

Q. If we did the same sort of analysis using the Wyoming result, the net power cost figure in that case was 626.4 million, wasn't it?

A. That sounds correct.

Q. And would you accept, subject to check, that the test year net system load was 53,312,632?

A. I'll accept that.

Q. And if you performed the same calculation, that suggests a dollar per megawatt hour figure of 11.75, which is 21.35 percent higher than the Washington figure. Will you accept that, subject to check?

A. I will accept, subject to check, that you have calculated these rather meaningless figures correctly.

Q. And this does calculate on a -- basically taking the load differences into account and trying to put them on a common dollar per megawatt hour figure?

A. Well, I don't agree with the fact that it really properly takes into account the load differences.

Q. We are using the net system loads used in each state when they set the power cost for that state; correct?

A. Right, but I think what's more meaningful to consider is what power costs would have been set in those states on the basis of the power cost models that were being used at the time those rates were set with the Washington loads.

In other words, if we adjusted the loads to bring them back to Washington levels so that it will be comparable to Washington rates, what would the power costs be. And that, I think, is a lot more meaningful than what you're trying to compute.

MR. VAN NOSTRAND: Thank you. I have nothing further, Your Honor.

CHAIRWOMAN SHOWALTER: I have another question.

JUDGE MOSS: Sure, before the redirect, yes.

E X A M I N A T I O N

BY CHAIRWOMAN SHOWALTER:

Q. Well, following up on this discussion you just had, I'm having a hard time figuring out why, if the company is not doing particularly well in the state of Washington, but the rates that it's charging in Washington are comparable to the other states, how is it that the company is doing just fine or okay financially, in general?

A. Well, I'm not sure I ever went so far as to make those sort of global statements. I think what I was trying to say was that if you look at the power costs -- see, in all these states we had a power cost model. One of the things we plugged into the power cost model was loads. And what I'm saying is that if we put the same loads in the other models as we put in Washington, we get power costs that about the same as we've gotten rates in Washington.

So I think what that says is that the rates we've got in Washington have a certain load level, they have a certain cost structure, and that's consistent, and if we had used the same load levels and cost structure in the other states, I think we would have the same power costs, essentially. And that's what I'm saying. With respect to power costs, I think there is an equity that is implicit in the current rates.

Q. An inequity or --

A. An equity.

Q. An equity.

A. A fairness about it.

Q. Well, then, if the rates are comparable, but the rate of return here is fairly subpar to what Wall Street would be looking at, what is accounting for the fact that the company is doing all right overall, which must mean that the other states are somehow providing a cushion?

A. Well, I think, if I recall what Mr. Larsen said, I believe that he said that the company was earning a 6.3 percent return on equity, and I thought that was an overall number. And he has an exhibit that he shows Washington at 6.9 percent.

Q. All right. So in other words, the answer is everywhere the company is only making 6.3 percent on a company basis?

A. Well, I believe -- my impression, that he was talking about an average, and that Washington was seemingly a little above it. I'm sure not everybody's at the average, but -- and I'm sure there could be a lot of arguments as to who's above and below, but that was the number. And based on his average number and his Utah number, I don't quite see the inequity part.

Q. All right. So the company has an overall -- what was it, double A bond rating, A, A bond rating, despite the fact that, overall, its rate of return is something on the order of 6.3 percent?

A. Right, and I suspect that probably at least part of the reason -- I mean, I don't -- I'm not a bond rater, but I would say one thing people probably look at is, you know, forward-looking circumstances. And this power crisis is being digested and it's being reflected out of the cost structure and we should see better days ahead, not just for Washington, but for everywhere.

CHAIRWOMAN SHOWALTER: Thanks.

JUDGE MOSS: At some point, we'll want to take an afternoon recess, but if you have just a brief redirect, then perhaps we can let Mr. Falkenberg get off the stand. So I'll ask you about the projection that you have for that.

MS. DAVISON: I wanted to pursue in more detail the last line of questioning about Washington versus the other states, so I think it's a good time to take a break.

JUDGE MOSS: All right. We'll do that. Fifteen minutes. I'll ask the parties to try to be back in about ten.

(Recess taken.)

JUDGE MOSS: We'll be back on the record. So we're ready for our redirect, Ms. Davison.

MS. DAVISON: Thank you, Your Honor.

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

BY MS. DAVISON:

Q. Mr. Falkenberg, under the terms of the rate plan stipulation, if the Commission were to grant PacifiCorp the ability to set up this deferred account, do you believe that PacifiCorp could begin to amortize or collect the dollars in the account at this time?

A. No.

Q. In other words, it's your view that PacifiCorp would have to wait till the end of the rate plan in order to raise rates in collecting the deferred account amounts?

A. That's right.

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

JUDGE MOSS: Well, you've put a hitch my plans, which was -- let's be off the record.

(Discussion off the record.)

JUDGE MOSS: Let's be back on the record. Just briefly, we have had some discussion off the record concerning our scheduling, and it's clear that we cannot finish our proceedings today, and so the better part of valor appears to be that we suspend our proceedings for today and we will pick up again on Monday, at 9:30 in the morning, and we will have Staff's first witness at that time.

So if there's -- is there any other business we need to take up today? Apparently there is not, so thank you all very much, and we'll see you Monday morning.

(Proceedings adjourned at 4:05 pm)