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1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION
3 Petition of PacifiCorp d/b/a)Docket No. UE-020417
4 Pacific Power & Light Company)Volume V
5 for an Accounting Order)Pages 441-621
6 Authorizing Deferral of Excess)
7 Net Power Costs.)
8 _____)

7 A hearing in the above matter was
8 held on March 24, 2003, at 9:40 a.m., at 1300
9 Evergreen Park Drive Southwest, Olympia, Washington,
10 before Administrative Law Judge DENNIS MOSS,
11 Chairwoman MARILYN SHOWALTER, Commissioner RICHARD
12 HEMSTAD and Commissioner PATRICK OSHIE.

13 The parties were present as
14 follows:

15 PACIFICORP, by James Van Nostrand
16 and Kendall J. Fisher, Attorneys at Law, Stoel Rives,
17 600 University Street, Suite 3600, Seattle,
18 Washington 98101.

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

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

27 Barbara L. Nelson, CCR
28 Court Reporter

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1 JUDGE MOSS: All right. Why don't we come
2 to order. Good morning, everybody. Let's be on the
3 record. Mr. Elgin, if you'll just raise your right
4 hand.

5 Whereupon,

6 KENNETH ELGIN,
7 having been first duly sworn by Judge Moss, was
8 called as a witness herein and was examined and
9 testified as follows:

10 JUDGE MOSS: Please be seated. After two
11 days of hearing, we're all in the routine, so let's
12 launch right in. Your witness, Mr. Cedarbaum.

13 MR. CEDARBAUM: Thank you.

14

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

16 BY MR. CEDARBAUM:

17 Q. Mr. Elgin, if you could please turn to
18 what's been marked for identification as Exhibits 101
19 and 102.

20 A. Yes.

21 Q. Is Exhibit 101 your direct testimony in
22 this proceeding?

23 A. Yes.

24 Q. And Exhibit 102 is your qualifications
25 exhibit?

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1 A. Yes.

2 Q. Were these documents prepared by you or
3 under your supervision and direction?

4 A. Yes.

5 Q. Are they true and correct, to the best of
6 your knowledge and belief?

7 A. Yes.

8 Q. Do you have any corrections to make to
9 anything?

10 A. Yes. Please turn to page ten.

11 Q. That would be in your direct testimony?

12 A. Yes, excuse me, page ten of Exhibit 101.

13 On line 16, after the word -- at the end of the
14 sentence, after the word "rate," install -- put in
15 the word "relief." So the sentence would read,
16 "including any request for interim rate relief."

17 Q. Is that the only change that you need to
18 make?

19 A. Yes.

20 Q. So if I were to ask you the questions that
21 are stated in Exhibit 101, your answers would be the
22 same?

23 A. Yes.

24 MR. CEDARBAUM: Your Honor, I would offer
25 Exhibit 101 and 102.

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1 JUDGE MOSS: Hearing no objection, they'll
2 be admitted as marked.

3 MR. CEDARBAUM: Mr. Elgin is available for
4 cross-exam.

5 JUDGE MOSS: Mr. Van Nostrand.

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

7

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

9 BY MR. VAN NOSTRAND:

10 Q. Good morning, Mr. Elgin.

11 A. Good morning.

12 Q. I'd like to start off with the discussion
13 in your testimony on page 11, where you make the
14 statement that the stipulation and a rate plan were
15 specifically crafted to provide reasonable rates and
16 provide the company an opportunity to solve not only
17 the allocation issue, but other issues, too. Do you
18 see that on page 11, lines ten to 12?

19 A. Yes.

20 Q. And I believe, later on in your testimony,
21 you make the statement, It's expected at the end of
22 the rate plan the company and Staff will have some
23 acceptable agreement for purposes of determining a
24 fair allocation of cost to Washington. Do you recall
25 that on page 18 of your testimony?

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1 A. Yes.

2 Q. Now, in Exhibit 107, a response to Data
3 Request 1.9, we asked you for documents or
4 information that would support the statement that one
5 of the purposes of the rate plan was to solve the
6 allocation issue. Do you recall that data request?

7 A. Yes, I have that.

8 Q. And it sounded -- looks as though you
9 didn't provide any documentation, but that the basis
10 for this statement was your personal knowledge of the
11 settlement negotiations in a capacity as lead
12 negotiator for Commission Staff. Is that a fair
13 summary of that response, at least on that issue?

14 A. On whether we provided any notes or --

15 Q. Yeah, the basis for the statement that one
16 of the purposes of the stipulation and rate plan was
17 to give the company an opportunity to solve the
18 allocation issue?

19 A. Yes, the response is in subparagraph B. I
20 explained my understanding of -- at least my
21 understanding of your question and the responses
22 contained in Exhibit 107.

23 Q. Now, that response indicates that Staff
24 took the position in the negotiation process that
25 modified accord would not produce a reasonable result

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1 in the future; correct?

2 A. Yes, that we had concerns about
3 interjurisdictional cost allocations given the
4 decision by the Utah Commission to adopt rolled in,
5 and for all intents and purposes, there was no longer
6 a modified accord methodology, and so one of the
7 issues that we were struggling with was what would be
8 an appropriate and a reasonable interjurisdictional
9 cost methodology for this company, given that
10 decision.

11 Q. Does it state anywhere in the stipulation
12 that the cost allocation issue is something that the
13 company must resolve during the rate plan period?

14 A. Not directly.

15 Q. And was the Commission made aware, when the
16 stipulation was presented, that Staff considered the
17 cost allocation issue to be an item that needed to be
18 addressed and resolved during the rate plan period?

19 A. No, as I stated, the stipulation does not
20 directly state that, although there were issues and
21 we did provide some testimony during the presentation
22 regarding the issues surrounding the measurement, but
23 we did not explicitly state that interjurisdictional
24 cost allocation was an issue.

25 Q. I'd like to compare that issue with another

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1 issue that I know you're very familiar with, and
2 that's the prudence issue. And you'll recall there
3 was extensive discussion of the prudence issue when
4 we presented the panel to the Commission to present
5 the stipulation; correct?

6 A. Yes, that's correct.

7 Q. And in particular, the issue of how the
8 Commission could be satisfied that rates under the
9 rate plan during the rate plan period would be just
10 and reasonable in the absence of a finding that the
11 underlying resources were prudent. Would you -- is
12 that a fair statement of the issue that was
13 discussed?

14 A. That's a fair statement of a portion of the
15 issues that were under discussion about the inability
16 of the company and how we addressed the issue, given
17 Staff's position in that case that the company did
18 not carry its burden. So we developed a different
19 process to get to the prudence issue, but yet still
20 make a determination that the rate plan would make --
21 would provide for rates over a five-year period that
22 were fair, just, reasonable and sufficient.

23 Q. Now, given your statement in 1.9 that the
24 Staff had opposed the -- again, that's exhibit --
25 response to Data Request 1.9, and that's Exhibit 107

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1 -- that Staff did not believe the modified accord
2 would produce a reasonable result, wouldn't this cost
3 allocation issue potentially present the same sort of
4 controversy to the Commission that was present with
5 respect to the prudence issue? In other words, how
6 can you represent to the Commission that rates would
7 be fair, just, reasonable and sufficient without a
8 determination as to the underlying cost allocation
9 methodology underlying those rates?

10 A. It's similar in the sense of a degree, but
11 that the issues surrounding prudence, if you recall
12 in that testimony, there are two questions regarding
13 the prudence determination. And one is -- the
14 threshold question is is there a demonstration of
15 prudence, and then the second question, which is the
16 more difficult question, is what should be the
17 appropriate ratemaking treatment in the absence of a
18 showing of prudence. And that is a much more
19 difficult proposition, and that is -- that is a very
20 tough problem in the rate-setting context.

21 That is not the same as determining, in my
22 mind, a range of outcomes with respect to what's a
23 reasonable cost allocation methodology, and in
24 particular, in the '99 case, given that test period
25 and those resources, it may well have been that Staff

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1 would have accepted modified accord for the limited
2 purposes of that case, but that in litigation would
3 have said specifically, going forward, we can't
4 accept this.

5 So if you think about it as a range of
6 complexity, the fact that we did not have an
7 agreement on cost allocation is towards the less
8 complicated and the prudence is on the other end of
9 the extreme and to the very complicated questions
10 surrounding the appropriate ratemaking treatment and
11 the underlying calculation of that.

12 Q. Well, had there been a similar discussion
13 of the lack of agreement on the cost allocation
14 issue, do you think there would be a basis for the
15 same sort of concern that how can we be sure that the
16 rates are fair, just, reasonable and sufficient if we
17 don't know the basis for the allocations of costs for
18 Washington?

19 A. No, I don't think they're in a similar --
20 in terms of the concern about that issue, I don't
21 think they're similar at all. And specifically, in
22 the context of the prudence, is we had the second
23 phase where the company and the Staff and the other
24 parties would try to develop a different process to
25 get to that question of prudence and develop the

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1 appropriate information so it wouldn't be developed
2 in the context of litigation, so I think there was a
3 bigger concern on the Commission's part regarding the
4 prudence question and the amount of resources and the
5 period of time that those resources spanned, and that
6 is, in my mind, not the same complexity of -- that's
7 a much more complex issue than just interstate cost
8 allocations in that time frame.

9 Q. So it's fair to say you would not be
10 surprised that there is no mention of cost allocation
11 in the testimony by either the Staff or the company
12 when the stipulation was presented to the Commission?

13 A. No, there wasn't, but there was an explicit
14 acknowledgement that the settlement was what we've --
15 what the term of art is, a black box. And the
16 Commission, in its order, specifically discussed
17 that. And the other critical issue is the fact that
18 the company was a party to that settlement and the
19 company, also, with whatever information it had, made
20 a determination that those rates would meet the
21 statutory standard and would be appropriate for the
22 five-year period.

23 Q. And it's fair to say that the order
24 adopting the stipulation also does not contain any
25 discussion about the cost allocation issue; correct?

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1 A. That's correct, but it does contain the
2 findings regarding the black box nature of the
3 settlement and the fact that, for this five-year
4 period, there would be no financial parameters from
5 which to evaluate this company.

6 Q. And turning back to this Exhibit 107, the
7 opposition of Staff to the modified accord or -- I
8 guess your statement was Staff does not believe that
9 modified accord would produce a reasonable result.
10 Now, that belief, in the context of the stipulation,
11 did not prevent Staff from making a representation to
12 the Commission, along with the other parties, that
13 the rates under the rate plan would be fair, just,
14 reasonable and sufficient during the rate plan
15 period?

16 A. That's correct.

17 Q. And if we turn to the next data request
18 response, which is Exhibit 106, and that's your
19 response to Data Request 1.8, you indicate -- and I'm
20 looking at the second page, the fourth paragraph
21 down, where you say that an allocation method other
22 than modified accord may have been considered as part
23 of Staff's analysis. Is that a fair characterization
24 of that statement on the first sentence of paragraph
25 four?

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1 A. It said we considered the magnitude of the
2 increase and impacts that could possibly result from
3 them, but I think that the foundation of our analysis
4 on a preliminary basis was modified accord, and then
5 -- but we considered other elements, in particular,
6 other elements related to power supply and
7 transmission. So we had some concerns about power
8 supply and transmission and modified accord at that
9 time, is my recollection.

10 Q. So --

11 A. So, like I said, there was a -- we looked
12 at a range of impacts and adjustments to the
13 company's revenue requirements given modified accord
14 and others, is I think what I'm trying to say here.

15 Q. Well, this language that refers to possibly
16 result from an allocation method other than modified
17 accord, is it correct that there were other methods
18 that were considered in your analysis?

19 A. Not in my analysis. I said I believe that
20 the Staff who were working on the case on power
21 supply, revenue requirements, accounting, the whole
22 range of issues, but we looked at modified accord and
23 potential adjustments and potential alternatives, and
24 considered a range of outcomes.

25 Q. And the ultimate finding, I guess, and I

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1 guess all the parties made that finding, was that we
2 all agreed the rate plan will provide rates that are
3 just, fair, reasonable and sufficient throughout the
4 rate plan period?

5 A. Yes. And if you look at the purpose, the
6 preamble to the stipulation, you'll see in that
7 paragraph where we discuss those very issues and how
8 we balance those competing interests.

9 Q. Now, do you state anywhere in your
10 testimony, Exhibit 101, that you can make a similar
11 finding today that the company's rates in Washington
12 are fair, just, reasonable and sufficient?

13 A. That we could?

14 Q. Yes.

15 A. Well, it would depend on what we would use
16 for cost allocation and how we would treat
17 particularly generation and transmission. If we
18 truly wanted to look at a stand-alone result, there
19 is information in the record already that suggests
20 that Washington rates are, on a normalized
21 rate-making basis, could be reduced.

22 So it depends on the cost allocation
23 methodology that you would accept and what you would
24 do for ratemaking in a general rate case, but there
25 is evidence that suggests Washington rates should go

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1 down.

2 Q. I guess the question that we're left with
3 when we look at how this issue was handled in the
4 stipulation and Staff's apparent opposition at the
5 time to modified accord is that how Staff was able in
6 that case to represent that rates would be fair,
7 just, reasonable and sufficient with the cost
8 allocation unresolved, while in this filing Staff
9 takes the position that the company's analysis should
10 simply be rejected as it is based upon an unaccepted
11 and unacceptable allocation scheme?

12 A. Well, it's not only that, but the Staff
13 position goes beyond that. Our position now is that
14 modified accord is not only unaccepted but it assigns
15 a disproportionate amount of costs to Washington.
16 And in fact, our position is very clear on that
17 point. It is an unacceptable, it's never been
18 accepted, but if we were to use it today, it would be
19 something that Staff could not support for that
20 reason.

21 Q. And so you're saying it's different today
22 by a magnitude than it was in '99?

23 A. Yes. And it's primarily driven by new
24 investments in generation and transmission and those
25 costs that the company's incurred since the test --

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1 the '98 test period that was used to underline the
2 rate plan.

3 Q. Do you present anywhere in your testimony a
4 demonstration that the company's existing rates are
5 fair, just, reasonable and sufficient using some
6 other cost allocation methodology?

7 A. No, neither -- I have not. Neither has Mr.
8 Buckley, nor Mr. Martin.

9 Q. One of the things the company did in
10 response to Staff data request was performing an
11 analysis of Mr. McDougal's results using PITA, the
12 PITA accord method. I believe that was in response
13 to a Staff request. Did you present any testimony
14 disputing the company's analysis using the PITA
15 accord method?

16 A. You'll have to ask that question to Mr.
17 Martin. I did not.

18 Q. And another thing that I think is in the
19 record now is Exhibit 28, which indicates that, under
20 the Idaho approach under review in the multi-state
21 process, results are not materially different than
22 under modified accord.

23 Did you present any testimony addressing
24 the impact of using the Idaho approach under the --
25 on the company's results?

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1 MR. CEDARBAUM: I'll object to the form of
2 the question. I don't know if this witness can agree
3 that there was a material difference or not, so I
4 would ask that the question be re-asked.

5 JUDGE MOSS: Maybe you could rephrase that
6 just a bit.

7 Q. Mr. Elgin, will you accept, subject to
8 check, that Exhibit 28 shows that the Idaho method
9 would result in a revenue requirement increase to
10 Washington over the modified accord in 2003 of 0.3
11 percent?

12 A. I don't accept that. That's not what it
13 shows.

14 Q. Okay. Let's look at exhibit --

15 A. It shows one study, but it does not show --
16 your question is of the form that says this shows
17 unequivocally that there is no difference, and this
18 is just one of the many studies that have been
19 produced that shows a result, but it does not
20 definitively show anything other than a particular
21 model run that the company has presented in MSP. It
22 does not establish anything whatsoever. It's just
23 one particular study.

24 So that's the problem I have with your
25 question. I mean, I agree that it shows -- this

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1 study shows the 0.3 percent difference, but that does
2 not mean that that is appropriate or is based on
3 correct assumptions.

4 Q. Do you present anywhere in your testimony a
5 study with the correct assumptions and the impact on
6 the company's results in Washington?

7 A. No, there's no such thing. We -- nobody
8 has said that any one set of assumptions is correct,
9 so, as my testimony states, until we have agreement,
10 that we can't show and we can't make any assertions
11 regarding what is a proper cost allocation or what
12 would be the impact on rates. We're still in the
13 process of evaluating a range of outcomes, and
14 there's, my understanding, quite a few studies, but
15 there is -- it's impossible to say that Staff, nor
16 the company, could unequivocally come in and say this
17 is the study and this is showing what the outcome
18 would be for Washington.

19 Q. And along those lines, one of the
20 statements Mr. Martin makes in his testimony is that
21 before Washington's costs can be reasonably
22 determined, a more equitable allocation plan must be
23 agreed upon by all PacifiCorp states and approved by
24 the Washington Commission.

25 Is that an accurate statement of Staff's

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1 position with respect to the cost allocation issue?

2 A. Do you have a cite for me?

3 Q. Page 14.

4 A. Okay. I'll go there.

5 Q. Exhibit 125, page 14. It's the very last
6 page of his testimony.

7 A. Yes.

8 Q. So in other words, an allocation plan must
9 be developed that is agreeable to all the PacifiCorp
10 states and approved by the Washington Commission
11 before the company's Washington costs can reasonably
12 be determined; correct?

13 A. Well, that is -- yes, I agree with that
14 statement, but it could very well be that there may
15 not be an acceptable or an agreed-upon cost
16 allocation methodology that comes out of multi-state
17 process. Then, if that were the case, then it's
18 still incumbent upon the company to make its proposal
19 with respect to what it feels is a reasonable cost
20 allocation methodology, and then the Staff and all
21 the parties could present theirs.

22 But what Mr. Martin is testifying here is
23 under the presumption that the MSP would result in a
24 successful outcome. But, absent that, there still is
25 the opportunity for the company, at the end of the

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1 rate plan, to make what it believes is a reasonable
2 allocation methodology absent any agreement upon all
3 the PacifiCorp states.

4 Q. So you would agree that Mr. Martin's
5 testimony doesn't actually impose that qualifier,
6 don't you, that MSP result in an allocation scheme
7 that's acceptable to all the states?

8 A. No, he does not, but I think that, with
9 that qualification, I think that that is the Staff's
10 position. We're hopeful that an agreement can be
11 reached.

12 Q. But in the end, it's your testimony that
13 the cost allocation issue, that the company takes the
14 responsibility for sorting that out; correct?

15 A. Yes, that was a commitment the company made
16 when it agreed to acquire the Utah properties, and
17 absent that commitment, I don't think that the
18 acquisition would have ever been approved. That's my
19 interpretation of the status of that hearing and the
20 outcome that would have resulted.

21 Q. And if we go back to Exhibit 107, which is
22 your response to Data Request 1.9 --

23 A. One second, please. Yes, I have that.

24 Q. The last sentence of the response there in
25 Section B discusses the company's efforts to resolve

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1 the allocation issue. You refer to the structural
2 realignment proposal as filed in 1999, and then I
3 believe you also refer to the multi-state process;
4 correct?

5 A. That's correct.

6 Q. Now, your response indicates that
7 structural realignment was filed in 1999. Would you
8 accept, subject to check, that it was actually filed
9 in December 2000?

10 A. I'll accept that.

11 Q. And that was about six months after the
12 rate plan and stipulation was entered into?

13 A. It was shortly thereafter. I'll accept
14 that, subject to check.

15 Q. And you would agree, wouldn't you, that the
16 SRP filing was intended to address the
17 interjurisdictional cost allocation issue?

18 A. That was one of the issues, as well as, my
19 interpretation, it was also to deal with the
20 structural issues that were being discussed at the
21 federal level regarding regional transmission
22 organizations and the changes from FERC Order 888 and
23 889. So I think it was an an attempt to do both.

24 Q. You appear to acknowledge by this response
25 that that was an example of an effort by the company

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1 to solve the cost allocation issue, though; correct?

2 A. That's correct. There was an effort by the
3 company to solve the cost allocation issue, and I
4 should, so the record's clear, is that in that -- in
5 that presentation, the company proposed a different
6 methodology, which it called the fair share cost
7 allocation, which shifted some of the costs to
8 Washington from the Utah decision to adopt a rolled
9 in methodology. But underlying that filing was
10 another cost allocation methodology proposal, and I
11 think it was called the fair share method.

12 Q. And in response -- I guess in terms of what
13 the response was to that filing, it's fair to note
14 for the record that the Staff response to that filing
15 was November 20th, 2001, nearly a year later, to file
16 a motion to dismiss; correct?

17 A. That's correct. We felt in that filing
18 that the company did not carry its burden. And the
19 other significant issue for Staff was the proposal to
20 transfer the transmission to PacifiCorp generation
21 and which would -- effectively, the Commission would
22 lose control over transmission, and the filing did
23 not have a transfer property application contained
24 therein. So yes, there were a couple significant
25 issues that resulted in our decision to file that

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1 motion.

2 Q. And in connection with the motion to
3 dismiss, did Staff suggest any other alternative
4 forums or processes that the company could follow to
5 solve its cost allocation problem?

6 A. Yes, we did.

7 Q. What was that?

8 A. We participated in several teleconference
9 calls and I personally drafted a proposal to continue
10 the PITA work group and to try to resolve
11 interjurisdictional cost allocations. And it was my
12 position at that time that the company still had the
13 burden to carry forward and make reasonable proposals
14 and work with the interstate cost allocation issue,
15 but I specifically made a recommendation and drafted
16 a proposal for that working group.

17 Q. Well, then, later on in 2001, when the
18 company elected to proceed with the multi-state
19 process, your response to the data request indicates
20 that this was another effort to resolve the cost
21 allocation issue; correct?

22 A. Yes.

23 Q. And it's fair to say, isn't it, from
24 Exhibit 110, that you opposed Washington's
25 participation in the multi-state process?

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1 A. Yes, I opposed the participation in the
2 process that was originally proposed. It's my
3 understanding that the company later amended that
4 process, which allayed a lot of the concerns I had
5 about the initial proposal put forward, and the
6 Commission ultimately determined to participate.

7 Q. But in terms of some of the reasons you
8 cited in Exhibit 110 for why Washington should not
9 participate, one of the things you say on page five
10 is that the cause of PacifiCorp's current cost
11 recovery problems is the effect of the Utah
12 Commission's rolled in decision; correct?

13 A. Yes, that, among others, but that's one of
14 them.

15 Q. And again, on page six, I think along those
16 same lines, you indicate the company's efforts -- and
17 I'm looking on the second paragraph from the bottom
18 of the page -- the company's efforts in the MSP are
19 misplaced and that the responsibility for the
20 company's substantial underrecovery of its costs lies
21 with its Utah operations; correct?

22 A. Yes, that's correct then, as it is correct
23 today.

24 Q. And I guess the point was that Washington
25 should not participate in a process in which it's

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1 likely that Washington customers will lose?

2 A. Well, no. At the time this proposal was
3 developed, I felt that my experience with and Staff's
4 experience with interstate cost allocations and
5 particularly the way the company filed its SRP, it
6 already indicated that the company was willing to
7 shift some costs from the Utah decision to
8 Washington.

9 And at that point, the way -- at that time,
10 the way I viewed this specific proposal and all the
11 formalities and the way it was structured, I was very
12 concerned that a record would be developed without
13 the control of the Commission, without all the
14 effective parties, and really, in my mind, there was
15 a strong push for the company to fill the regulatory
16 gap by shifting costs to other jurisdictions, and I
17 was very concerned about that at that time.

18 Q. And the bottom line seems to be that the
19 company's ability to recover its costs is not related
20 to anything this Commission can do, other than
21 increase rates to Washington ratepayers in order to
22 pick up the costs Utah no longer supports in rates.
23 And that's the bottom of page seven and the top of
24 page eight. Do you recall that from your memo?

25 A. Yes, I felt that what the -- it was

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1 incumbent upon the company to seek to reverse the
2 decision by the Utah Commission to adopt a rolled in
3 methodology, and I, at that point, felt that a PITA
4 process, a less formal process with more balanced
5 participation, would have been a preferable outcome.

6 And my concern was that the MSP, as
7 proposed, and particularly some of the lead-up
8 conversations that I had with the working group, was
9 that this was a process that would adversely -- could
10 very well adversely affect Washington interests.

11 Q. Isn't it fair to say from this memo that
12 that was the primary basis for your opposition to
13 participation in MSP, was that the gap was a Utah
14 issue and Washington should not be expected to cover
15 for it?

16 A. No, that was just one of the issues. The
17 other issue had to do with the ability of Utah and
18 Oregon to unilaterally stop the process, the
19 selection of the MSP facilitator, there were issues
20 surrounding the record, there was issues surrounding
21 how the Commission would implement an MSP outcome,
22 and so there were a whole -- I mean, it's an
23 eight-page memo. There are more than just that
24 issue.

25 But my concern was that the process, as

0469

1 proposed and structured at that time, was an effort
2 to figure out a way to shift costs to Washington, and
3 part of that concern was the fair share cost
4 allocation methodology that was filed in the
5 structural realignment proposal. So it was just kind
6 of this overall concern about cost shifting, and that
7 was one of them among many that I've laid out here in
8 my memo.

9 But -- and I would also concern -- point
10 out that the underlying charts that are attached to
11 the memo clearly show that the Utah jurisdiction, in
12 my mind, has received -- just if you look at it on
13 the basis of rates, have received a disproportionate
14 share of benefits that resulted from the merger, and
15 so that the evidence that I looked at seemed to
16 indicate that the real problem was cost recovery in
17 Utah, and that's where the company's efforts should
18 be directed.

19 Q. And to sum it up, you say on page eight,
20 The company and its shareholders accepted the risk
21 that a regulatory gap could exist when they proposed
22 to acquire Utah?

23 A. Yes, I say that.

24 Q. And turning from that, I guess, to the
25 statements where you are on your testimony here, page

0470

1 23, and I think you made the same statement this
2 morning, Until the cost allocation problem is solved,
3 the company should not make any assertions regarding
4 its financial results in Washington. Do you recall
5 that from your testimony on page 23?

6 A. Yes.

7 Q. I'm just trying to sum up where that leaves
8 the company, given that we've established that the
9 company was responsible for solving the cost
10 allocation issue, the issue needed to be resolved
11 during the rate plan period, the company attempted to
12 solve it by filing SRP, Staff, a year, later moved to
13 dismiss, the company attempted to address the cost
14 allocation by filing MSP, and your recommendation was
15 that Washington not participate.

16 My question is if your recommendation had
17 been followed on the Staff motion to dismiss SRP
18 would have been granted, the company would have been
19 unable to solve the cost allocation problem during
20 the rate plan period, wouldn't it?

21 A. No, it would not.

22 Q. And again, you're referring back to --
23 you're using the PITA process?

24 A. Yes, and I might add, I've been -- had
25 conversations with Commission Staff members that are

0471

1 participating in that process, and my observations of
2 the process to date is that it is really the PITA
3 process reinvented. It's really that process all
4 over again. It's studies, it's a range of outcomes,
5 it's considering alternatives, but it's really PITA
6 by another name.

7 Q. Is that a good thing?

8 A. Yes, that's what the company committed to
9 do when it chose to acquire Utah Power and Light. It
10 committed to this Commission that interstate cost
11 allocations and the acquisition of Utah would not
12 create a burden on this Commission regarding future
13 cost allocations, and it also committed that it would
14 bear that burden and resolve any issues and continue
15 on an ongoing basis to carry that burden.

16 And that's a good thing for Washington,
17 because the company chose to acquire Utah, and there
18 was that issue in that rate case, and this was the
19 thing that we all -- the Staff feared that might
20 happen, is that Utah, as a high-cost jurisdiction,
21 would go to rolled in pricing and have adverse
22 consequences for Washington ratepayers.

23 Q. So it's your testimony this morning that
24 the MSP process, which you so strongly opposed March
25 27th, 2002, has been transformed into a process that

0472

1 turns out to be a good one after all?

2 A. Well, a good one in the sense that it is a
3 process designed to get to interstate cost
4 allocations. It's designed -- it's an informal
5 process, it's sharing data, it's sharing information.
6 The parties are doing studies and they're attempting
7 to get to resolution, which is precisely what I
8 recommended that the company do during SRP.

9 Q. I'd like to relate this cost allocation
10 issue back to the provisions of the stipulation, in
11 particular, Section 11 of the rate plan stipulation.
12 And that allows the company, under certain
13 circumstances, to reopen the rate plan; correct?

14 A. It allows the company to reopen the rate
15 plan by making a general rate case filing. Yes, it
16 does.

17 Q. And given your testimony that the cost
18 allocation issue was one of the issues specifically
19 crafted to be resolved during the rate plan period
20 and that I think you state later on in your testimony
21 that the company and Staff were expected to have an
22 acceptable agreement for purposes of determining a
23 fair allocation of cost, did Staff have the cost
24 allocation issue in mind when it considered how
25 Section 11 would be implemented?

0473

1 A. Yes, we did.

2 Q. Wouldn't the company have to make
3 assertions regarding its financial results in
4 Washington, which you say, on page 23, the company
5 can't do until it's resolved the cost allocation
6 problem?

7 A. What the company can't do is present a
8 stand-alone allocation methodology that's embedded in
9 Mr. McDougal's and Mr. Larsen's testimony. What the
10 rate plan and what the parties intended the rate plan
11 to do is that if there's a financial emergency and
12 the company is impacted adversely and cannot finance
13 on reasonable terms, the company may come in and seek
14 interim rate relief and, as a part of that filing,
15 propose new general rates. And embedded in that
16 proposal would be cost -- interstate cost
17 allocations.

18 So what we would do is we would, on a
19 short-term basis, solve the emergency, and the
20 requirement is that Utah and Oregon are also
21 adjudicating emergency requests. We would figure out
22 a way to apportion some amounts to Washington. And
23 the interim requests are typically subject to refund.
24 Then we'd have the general rate filing and we would
25 sort it all out. That is what the parties intended

0474

1 under Section 11 of the stipulation, and that's how
2 we would solve the interstate allocation problem.

3 Q. And taking that into account, along with
4 the statements in Mr. Martin's testimony, I take it
5 the allocation plan that the company would have to
6 include in that filing would be one that had been
7 agreed upon by all PacifiCorp states and approved by
8 the Washington Commission?

9 A. No, it would be nice if we had one, and
10 that would potentially eliminate an issue in that
11 rate case, but it didn't have to be. And the company
12 would have had to make some kind of proposal and the
13 parties would have had to address that in the context
14 of the general rate filing. But it would have been
15 nice to have an agreement, but it wasn't a
16 requirement.

17 Q. So you're saying that Washington costs can
18 be reasonably determined without having an allocation
19 plan agreed upon by PacifiCorp states and approved by
20 the Washington Commission?

21 A. If we're in a general rate case, yes, we
22 can, but in the context of this filing and the
23 context of how you have proposed and chosen to
24 allocate costs to Washington on a stand-alone basis,
25 we can't get there. The rate plan does not

0475

1 contemplate that.

2 Q. So it's your testimony that the company
3 would not have needed to make any -- using the words
4 from your testimony -- any assertions regarding its
5 financial results in Washington. It would not have
6 been required to do that in order to proceed under
7 Section 11 in the rate plan?

8 A. No, no, that's not my testimony. I just
9 stated that what the rate plan contemplates is that
10 if there is an emergency that the company is facing
11 and it files an interim request in Utah and Oregon,
12 it may file a general rate case in Washington, with a
13 rate case -- with a proposal for interstate cost
14 allocations, and then we can make a determination,
15 because then the Commission has in front of it the
16 evidence, the parties have the opportunity to
17 evaluate your proposal, whether it's an agreed-upon
18 methodology or not, and we can move forward. But
19 that's how you reopen the rate plan.

20 What I'm saying is that what you're -- the
21 way you've presented your case, you can't say that
22 Washington is being subsidized or Washington rates
23 are not compensatory absent a finding by the
24 Commission of an approved allocation methodology
25 while you're in the rate plan. That's my testimony.

0476

1 Q. Because during the rate plan, there isn't
2 an approved allocation methodology?

3 A. That's correct.

4 Q. Is it fair to say that you're reading into
5 Section 11 a requirement that the cost allocation
6 issue be resolved before the company can get relief
7 under Section 11?

8 A. No, I'm not. That's not fair to say.

9 Q. One of the things you say is, and I think
10 it's in the context of your reference to Utah and
11 Oregon, but the company needs to present its total
12 financial profile in order to proceed under Section
13 11. Is that your testimony?

14 A. Yes, I believe, to meet the requirements of
15 the interim standard, the stipulation requires the
16 company to be in a financial emergency. And I
17 believe you asked that question in response to the
18 data request, and I laid out those circumstances and
19 how I thought that that filing and how the rate plan
20 would operate in that regard.

21 Q. Is it your testimony that the PNB standards
22 require the filing of the total financial profile?

23 A. Not necessarily, but in circumstances -- in
24 this particular circumstances, that requirement under
25 Section 11 is there.

0477

1 Q. The Section 11 imposes a requirement that
2 the company file its total financial profile?

3 A. That is what the parties intended, and
4 that, as I responded to a data request, is by having
5 the requirement where we say the company is
6 requesting similar relief in its two largest
7 jurisdictions, that is what -- why that's there and
8 that was the intent of the parties.

9 Q. Now, when PNB sought interim relief in
10 1978, did it present what you would call a total
11 financial profile or just the Washington intrastate
12 results?

13 A. I don't recall right now.

14 Q. Would you accept, subject to check, page
15 four of the PNB order states that, While rate of
16 return figures on common equity of necessity are for
17 the company as a whole, there is no demonstration in
18 the record that Washington intrastate operations are
19 failing to contribute their proportionate share to
20 overall earnings?

21 A. Yes.

22 COMMISSIONER HEMSTAD: Counsel, which order
23 and what year?

24 MR. VAN NOSTRAND: That's 1978, the second
25 supplemental order denying petition for emergency

0478

1 rate relief.

2 THE WITNESS: Yes, Mr. Van Nostrand. I've
3 agreed with you that it may not be a particular
4 circumstance, but I need to remind you that, in 1972,
5 PNB was part of the AT&T operations, and PNB, in my
6 understanding, did its own financing, as opposed to
7 the parent financing for it, so that is a different
8 circumstance.

9 And so how PNB is applied is a facts and
10 circumstance test regarding the particular company
11 and its regulated operations, and what I'm saying is
12 that the intent of the parties was to impose that
13 requirement on the companies. There had to be a
14 company emergency, and Utah and Oregon needed to be
15 processing similar interim relief requests, and
16 that's what we intended and that's what we tried to
17 craft with the language.

18 Q. Well, isn't it fair to say that it's also a
19 different circumstance from the PNB situation that
20 the company clearly has presented evidence in this
21 case that Washington intrastate operations are
22 failing to contribute their proportionate share to
23 overall earnings?

24 A. No, that's not the case. Your models
25 underlying your testimony are flawed. They assigned

0479

1 a disproportionate share of costs to Washington. The
2 underlying financial models, and in particular the
3 cost that the company is proposing for deferred, do
4 not belong in Washington. If anything, they need to
5 be directly assigned to the Utah -- or to the Utah,
6 Wyoming and Idaho jurisdictions, the summer-peaking
7 utilities -- jurisdictions in the company's
8 operations. So the company's evidence is flawed. It
9 does not show that.

10 Q. Mr. Elgin, I wasn't talking about what you
11 think the company's evidence show. My point is isn't
12 it true that, unlike the PNB situation, where the
13 Commission states there was no demonstration that
14 Washington intrastate operations are failing to
15 contribute, that in this case, the company has put on
16 evidence where the company believes it is presenting
17 the case that Washington intrastate results of
18 operations are failing to contribute their
19 proportionate share? Isn't that a difference between
20 what PNB did in its case versus what the company is
21 doing in this case?

22 A. And your case -- you've succinctly
23 described your case, yes.

24 Q. Now, I'm trying to understand -- in terms
25 of your total financial profile, is there anything in

0480

1 the manner in which the Commission has implemented
2 these PNB standards over the years, is there any
3 indication that, for a multi-jurisdictional company,
4 the total financial profile is necessary?

5 A. No, but, in general, that's just one of the
6 requirements. But the point is is you have to look
7 at who's doing the financing, and in this
8 circumstance, the financing is being done by the
9 company. And so at some point, you know, in order to
10 even do what you've done, you have to have at least a
11 reasonable assurance that those costs would be
12 directly assigned or properly allocated to the
13 Washington results, and we don't have that.

14 And so that's what's so troubling about
15 your line of questioning here, is that when we put
16 together this stipulation, we knew there was a
17 problem and we tried to put together something that
18 said, Look, if there's something that impacts the
19 company, you may come in and file a general rate
20 case, and how we go about and assign an interim
21 amount to Washington and then figure out what are
22 fair rates going forward, we'll have that case. But
23 that's what the rate plan does. And it -- we did not
24 go back and look at all the ways that allocated and
25 total company results and interim standards were

0481

1 applied in prior cases; we looked at what does this
2 company have to do in order to reopen the rate plan.

3 Q. And it's your testimony that, in effect,
4 Section 11 imposes this obligation to present a total
5 financial profile; correct?

6 A. Yes.

7 Q. And if I look at your testimony on page 11,
8 where you discuss this total financial profile, you
9 state that the presentation would show that the
10 entire company's facing a financial emergency,
11 interim relief is sought in Oregon and Utah, and that
12 some amount of relief should be apportioned to
13 Washington.

14 And when I compare that approach to your
15 discussion of how you think Utah calculates its rates
16 and the Utah problem that you identify in your memo
17 included as Exhibit 110, my question is isn't it
18 likely that, under this total financial profile
19 approach, Staff would take the same position then
20 that it does today that it's a Utah problem and the
21 company should not -- Washington should not be
22 expected to compensate for the Utah problem?

23 A. No, I don't.

24 Q. Well, how -- the statement "some amount of
25 relief should be apportioned to Washington," in

0482

1 performing that allocation, how do you avoid, for
2 purposes of granting interim relief, the same
3 problems that you identify in your Exhibit 110 in
4 terms of the shortfall caused by Utah?

5 A. Because the interim relief would be granted
6 subject to refund, and that we would now have a
7 process to determine what is a fair apportionment of
8 costs. That's what the rate plan provided, is that
9 if the company's earnings fell to a point, you could
10 come in, you could ask for interim relief, the
11 Commission would make some determination, put those
12 rates in subject to refund, and then process the
13 general rate case.

14 Q. Turning to Exhibit 36, which is your
15 response to 112 --

16 A. I have that in a different notebook. One
17 second, please.

18 CHAIRWOMAN SHOWALTER: Exhibit 112, is it?

19 THE WITNESS: Yes, I have that now.

20 Q. You acknowledge that the filing of that
21 information would not solve the allocation issue, but
22 that it would, I think, go a long ways towards
23 solving the cost allocation issue; is that what you
24 say?

25 A. Yes, it would go a long way to -- I think I

0483

1 was referring to complying with the requirements of
2 Section 11. It doesn't go to solve the allocation
3 problem; it goes to the point as whether or not
4 you've met the burden under Section 11 to the
5 stipulation.

6 Q. Well, in determining the amount of relief
7 apportioned to Washington in the absence of agreement
8 on the cost allocation process, how do you determine
9 the amount of relief that should be apportioned to
10 Washington?

11 A. Well, there's several ways. For example,
12 if it turned out that this was truly a power crisis
13 and that there was a reasonable element of cost that
14 could be apportioned to Washington and it looked like
15 it was on the basis of total energy, you might
16 apportion it on the basis of energy, you might
17 apportion it on the basis of revenues. It depends on
18 what was causing the emergency.

19 And you could very well -- let's say that
20 it was a major earthquake and there was a severe
21 disruption and impacts on the distribution system, so
22 the company had to go and get a bunch of money to
23 repair infrastructure. You might then apportion that
24 on the basis of rate base. So it depends on the
25 circumstances, what's given rise to the company's

0484

1 emergency, and then you would make some reasoned
2 judgment about how you would apportion that.

3 So there's a whole bunch of factors that
4 could be -- for example, let's say the transmission
5 system went down. That might cause you to look at it
6 in a different way. And it may cause you to say
7 Washington would bear more of those costs, as opposed
8 to something on -- so you have to look at the facts
9 and circumstances and apply good judgment as to how
10 to apportion that. And the Commission and its Staff
11 do this all the time.

12 Q. And when you talk about the allocation of
13 relief being apportioned to Washington, you're
14 assuming that there would be reasonable agreement
15 among Utah, Oregon and Washington as to the amount of
16 interim relief that should be apportioned to each
17 state?

18 A. No, each -- I testified that each state
19 would apply its own standards and make its own
20 judgment regarding the total emergency, the total
21 company emergency, and what Washington, using its
22 judgment and its standards and principles, would say
23 this belongs to Washington.

24 Q. Well, you mentioned an energy crisis and
25 that the impacts will be allocated on an energy

0485

1 basis. Supposing it's an energy crisis where the
2 company is having to make purchases of high-cost
3 wholesale power during the summer months, where the
4 peak demand is growing the fastest in Utah. Can you
5 see interim relief being granted to the company in
6 Washington under that circumstance?

7 A. No, because those costs, under a reasonable
8 cost methodology, would be assigned to -- the
9 causation principle would say those costs belong to
10 where the cost causers are. So you could identify
11 who would be responsible for those costs and you
12 would directly assign those costs. It would be a
13 question of allocation.

14 Q. And similarly, suppose the company is in a
15 financial bind because it's having to spend a lot of
16 investment building new generation to serve growing
17 loads in Oregon, Wyoming and Utah. Would there be
18 any interim relief allocated or apportioned to
19 Washington under that circumstance?

20 A. Probably not.

21 CHAIRWOMAN SHOWALTER: Mr. Van Nostrand,
22 can I just ask you to slow down a little bit? I'm
23 actually having a hard time comprehending your
24 questions, because your words are going by so fast.
25 So then I don't really understand the answers.

0486

1 MR. VAN NOSTRAND: All right. I'll do my
2 best.

3 CHAIRWOMAN SHOWALTER: Partly my brain,
4 too.

5 MR. VAN NOSTRAND: It is Monday morning.

6 Q. I just have another line of -- one more
7 line of questions, Mr. Elgin. In terms of what the
8 company's financial testimony was in this case, I
9 think you've already touched upon it, but the company
10 did present testimony regarding its earned return on
11 equity in Washington operations and projections of
12 those earnings through the end of the rate plan
13 period. It's fair to say you don't present any
14 testimony at all on addressing the company's ROE
15 calculations or put on a competing analysis of return
16 on equity; correct?

17 A. I don't agree with the first part. I did
18 put testimony critiquing the analysis, but I did not
19 put a competing -- I did not say, Well, if you
20 allocate this way and that way, you get a different
21 ROE result. No, I did not do that.

22 Q. Well, and even on a total company basis,
23 you didn't offer any testimony that addresses the
24 company's returns on equity on a total company basis,
25 did you?

0487

1 A. No, I did some analysis, but I did not
2 present it, because I would be -- since the company
3 didn't put it on, it's -- and it doesn't -- the
4 analysis that I did show that the company wasn't
5 facing an emergency, so there was no need for me to
6 go that step.

7 Q. So if the Commission were to apply the
8 interim rate standard, you haven't provided any
9 alternative financial analysis in your testimony
10 addressing returns on equity on either a
11 Washington-only or a total company basis that the
12 Commission could put alongside the company's
13 analysis; correct?

14 A. No, I have not, and it would not be my
15 burden. That's the company's burden.

16 Q. And is the same true for the company's
17 calculation of pre-taxed -- pre-tax interest
18 coverage, both currently and for the remainder of the
19 rate plan period? Do you present any testimony that
20 shows the company's pre-tax interest coverage will be
21 any different than what the company's presented in
22 Mr. Larsen's exhibit?

23 A. No, I did not, with the same qualification.

24 Q. Did you present any alternative analysis
25 and pre-tax interest coverage calculations on either

0488

1 a total company or a Washington-only basis?

2 A. Same answer.

3 Q. So it's fair to say that if the Commission
4 were inclined to apply the interim rate standard, you
5 have not provided any alternative financial analyses
6 that would inform the Commission about the company's
7 pre-tax coverage levels, either now or during the
8 rate plan period, either total company or
9 Washington-only?

10 A. No, I would testify that, on a total
11 company basis, there is no emergency, and that I've
12 testified that the company's analysis is flawed
13 because its presentation assigns a disproportionate
14 share of costs to Washington.

15 Q. Another point the company makes in its
16 testimony is that, based on its financial indicators,
17 its Washington-only bond rating would be double B.
18 Do you dispute that bond rating analysis anywhere in
19 your testimony?

20 A. Yes, it's a meaningless term. There is no
21 such thing as PacifiCorp's Washington stand-alone
22 bond rating. There is no such thing. You can't
23 respond to it, because there's no basis for saying
24 Washington is a stand-alone company. In fact, if you
25 want to look at stand-alone results, there's evidence

0489

1 in the record, on a stand-alone basis, that
2 Washington has -- revenue requirements should go down
3 by a magnitude of at least ten percent.

4 So you know, if you're going to compare
5 Washington stand-alone and present a financial
6 analysis, then you clearly would need to say what is
7 the appropriate cost for Washington. And under an
8 MSP study on a Washington stand-alone basis, it
9 appears that Washington rates should go down. So
10 that's the problem I'm having with the company's
11 case.

12 Q. In terms of the issue of bond ratings, you
13 didn't even put on any testimony that addresses the
14 company's bond rating on a total company basis, did
15 you?

16 A. No, I did not.

17 Q. And one other thing --

18 A. Again, the same qualification. That would
19 be the burden of the company to present that
20 evidence.

21 Q. And one other area of the company's
22 financial presentation had to do with capital
23 requirements and cash flows. And in that situation,
24 it seems as though you do offer testimony. You state
25 on page 15, I believe, that half of the \$700 million

0490

1 for new distribution facilities is for Utah, and with
2 respect to the generation and transmission, you say
3 that these cash needs are not driven by the growth in
4 Washington; correct?

5 A. Yes.

6 Q. So it appears that, with respect to cash
7 requirements and capital requirements, cash flows,
8 this testimony can be evaluated on a Washington-only
9 basis; correct?

10 A. No, that's not what I'm saying. That's not
11 the purpose of my testimony here. My purpose here is
12 these figures just jump off the page. They just --
13 you know, you look at their exhibits and they just
14 pop off the page, they're so big. And what I was
15 responding to is if you go to the criticism of your
16 testimony regarding whether you met interim
17 standards, one of the things that you have to do is
18 show the connection between the request for interim
19 and what are the essential financing needs of the
20 company.

21 And even though -- even if you were to
22 accept the cash flow statements and you would accept
23 the bond ratings that are portrayed there, you have
24 not gone the other step to show how the specific
25 relief you're asking for is connected to the interim

0491

1 relief that you're -- or the relief that you're
2 asking for in this jurisdiction. You haven't taken
3 that step, and that's a critical flaw in your
4 presentation.

5 And so that's why I said is that -- if you
6 look on line 16, there is a connection between -- the
7 company has not shown there is a connection between
8 the increase requested and its impact on improving
9 the financial indices necessary for the company to
10 obtain financing. And you've not shown how the
11 relief will stave off impending disaster, nor avoid a
12 clear jeopardy to shareholders and ratepayers, and
13 nor -- so I'm just saying there's a critical flaw in
14 your presentation regarding the connection for the
15 relief and how this is going to solve the emergency,
16 and that's why that's there, and these -- this
17 supports that analysis, because these are substantial
18 amounts of cash flow -- or cash requirements, and
19 there's no testimony regarding whether any of these
20 can be deferred, whether any of these -- are there
21 alternatives, are there any -- it's just -- it's
22 there. And well, what are we to do with it, and how
23 was the relief you're asking connected to solving
24 this problem.

25 Q. Is it your understanding from the testimony

0492

1 of Mr. Larsen that the company's claiming a financial
2 emergency?

3 A. I'm -- Mr. Larsen's testimony is stating
4 that -- my reading of it is there's a subsidy. And
5 Washington is not paying its fair share of rates.

6 JUDGE MOSS: Mr. Van Nostrand, would this
7 be a convenient point for us to take a break?

8 MR. VAN NOSTRAND: Give me another couple
9 minutes, and I can be finished. Okay?

10 JUDGE MOSS: That's fine.

11 Q. Turning back to your testimony on page 15,
12 where you discuss the cash flow and capital
13 requirements, apart from your statements on this
14 page, you didn't quantify the adjustments that you
15 would make to the company's analysis of cash flows
16 and capital requirements; correct?

17 A. I couldn't, because the company didn't
18 present any evidence of that. I did do a preliminary
19 calculation, and it was clear to me that Washington
20 results -- that the cash flows from Washington, even
21 on the modified accord methodology, was providing
22 significant -- enough cash to provide for the
23 distribution. And so it just seemed to me that,
24 right then and there, that, you know, there was a
25 flaw with your presentation.

0493

1 Q. And did you present the results of that
2 analysis anywhere in your testimony?

3 A. No, no, because at that point, had I gone
4 that far, it's almost like, then, how much further do
5 I go. And then I started thinking to myself, Well,
6 wait a second, there's no basis for accepting these
7 numbers, because I can't have any confidence that the
8 allocated results produce a credible basis for
9 Washington results.

10 MR. VAN NOSTRAND: Thank you, Mr. Elgin. I
11 have no further questions, Your Honor. I would like
12 to move the admission of 103 through 110.

13 JUDGE MOSS: Hearing no objection, they
14 will be admitted as marked, and we'll be in recess
15 until 11:00.

16 (Recess taken.)

17 JUDGE MOSS: Let's be back on the record.
18 And it's time for questions from the bench.

19

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

21 BY CHAIRWOMAN SHOWALTER:

22 Q. I'd like to ask what constitutes reopening
23 the rate plan? If there were some kind of
24 extraordinary cost, and assume it would be
25 permissible one way or another and we imposed a

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1 surcharge, would you consider that to be reopening
2 the rate plan, as distinct from perhaps amending
3 things under the settlement or reopening the
4 settlement?

5 A. Well, to answer your question, I think
6 there were two -- if you put it in the context of
7 your question about a surcharge, I think there might
8 be a circumstance under Section 9, for example. We
9 tried to limit the deferred accounting petitions that
10 were -- that the company could file during the rate
11 plan. There may have been, let's say, some -- let's
12 just say there was, hypothetically, an earthquake.

13 Q. Let's take an earthquake only in
14 Washington.

15 A. Yes.

16 Q. That only damaged Washington.

17 A. Washington. And there were some
18 extraordinary expenses and circumstances that we
19 wanted to address, and we wanted to do -- I think
20 there what the Staff would probably recommend is
21 that, even though Section 9 prohibits deferred
22 accounting, there's a limitation, we would say in
23 this circumstance, we think the public interest
24 warrants some deferred accounting treatment for those
25 extraordinary expenses, and quite possibly maybe even

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1 lost revenues.

2 Because let's just say there's an
3 earthquake and there's, even on the revenue side, you
4 know, there's inability to deliver power. And then,
5 by the time it got back up, you know, we might want
6 to do some things there. And I would say that how I
7 would view this rate plan is, on your ongoing kind of
8 supervision of the companies under this rate plan, I
9 would say that we might do something like that and a
10 surcharge in Washington.

11 However, under Section 11, where we do talk
12 specifically about a rate plan reopener, I think
13 that's a different thing, because that is a general
14 rate case. There's something happening, there's
15 something going on, there's an emergency, and the
16 company should be entitled to establish new base rate
17 levels.

18 Q. All right. But in your view, if we were to
19 impose a surcharge based on the earthquake charges,
20 that would not be a reopening of the rate plan?

21 A. No, ma'am.

22 Q. Okay. Now, you just said that you don't
23 think extraordinary earthquake charges are
24 permissible under Section 9, and that the appropriate
25 route, in your view, would be to, I gather, amend the

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1 settlement agreement for purposes of imposing that
2 extraordinary charge?

3 A. Right, and permit -- and establishing the
4 accounting to do that, because it would be an
5 exception, yes.

6 Q. And under those circumstances, would you
7 have any particular aversion to allowing recovery
8 during the rate plan or would you think the deferred
9 accounting and the surcharge should await some later
10 date?

11 A. No, I would probably begin some sort of
12 amortization, because the other thing is I think the
13 public would make the necessary connection between
14 the surcharge and the event that triggered the
15 surcharge, so I think that in that regard it would be
16 -- that would be my recommendation.

17 Q. All right. And then, just to be clear, I
18 have read your testimony, in which you state your
19 interpretation of Section 9, but I understand you to
20 say that Section 9 simply doesn't, by its own terms,
21 allow for recovery of extraordinary costs, like an
22 ice storm or earthquake?

23 A. That's correct. It limits -- it limits
24 deferred accounting petitions to very, very narrow
25 items, and then those kinds of events would be

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1 extraordinary and we would have to make a special
2 dispensation and bring something forward in that
3 regard.

4 Q. And that is because, in your view, the
5 second paragraph of Section 9 is a modifier of some
6 kind of the list that precedes it?

7 A. That's correct.

8 Q. Now, supposing the earthquake were in
9 Washington and Idaho, and it did some major damage to
10 a hydroelectric plant. First, would you agree that
11 that situation would be as meritorious as the
12 internal Washington-only situation in terms of
13 granting some kind of relief?

14 A. Yes.

15 Q. But how would you determine what to
16 allocate to Washington and Idaho if you didn't have
17 an approved allocation plan?

18 A. There, again, you'd have to look at the
19 facts and circumstances. And on a hydro facility, I
20 would say that the hydro facilities are traditionally
21 considered a Pacific Division resource, and so we
22 would probably come up and look at what would be some
23 basis for reasonably allocating that extraordinary
24 circumstances in light of some unique event that had
25 an impact on the company.

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1 Q. Isn't it the case that if we, in this
2 state, don't have an approved allocation plan, then
3 either no relief is possible or, if relief in general
4 is meritorious, the parties in front of us will have
5 to make some kind of rough allocation, even if it's
6 not pursuant to an approved allocation plan?

7 A. That's correct, and that's why the Staff
8 case is presented as the way it is, is that we looked
9 at the circumstances that the company was faced, and
10 our conclusion is that the methodology that they are
11 proposing is flawed. And Mr. Buckley could speak a
12 little bit further to that, but if you look at these
13 costs that they're asking for cost recovery, we have
14 concluded that there is no reasonable basis to --
15 despite the fact that there isn't an acceptable
16 methodology, there's no reasonable basis for which to
17 assign or apportion any of these costs to Washington.

18 Q. Well, I want to break apart your answer,
19 because I think I understood especially Mr. Buckley's
20 testimony, and maybe yours, to be saying until we
21 have an approved allocation plan, we can't go
22 further. And that's very different than saying we
23 don't have an approved allocation plan, but here's a
24 temporary allocation for purposes of this proceeding.

25 A. Well, and that's the dilemma that we have

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1 with this case, is on the one hand, we don't have an
2 approved allocation methodology. We crafted a rate
3 plan that set out on the best knowledge that -- the
4 best knowledge we had was a five-year plan for the
5 company that produced, we thought, reasonable
6 results.

7 And for the company now to come in and say,
8 Well, let's apply modified accord and assign
9 Washington stand-alone results, we said, That's not
10 right, that's not acceptable. And we can't measure
11 now in that context.

12 Then we went one step further in saying,
13 Well, is there any basis for us to review these
14 circumstances and these costs and come up with some
15 way of saying Washington is responsible? And we
16 didn't get there, either, so it's not saying that the
17 company is faced with a dilemma that it can't seek
18 cost recovery. We have a rate plan that produced
19 reasonable results and we all agreed to that. And
20 then, if we look at these circumstances, we can't
21 say, Well, let's apply this cost methodology to these
22 results and then -- and then move forward with cost
23 recovery. We can't get there, I think is what you
24 our case is.

25 Q. Well, when you say you went one step

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1 further, I am unclear, because I read your case
2 generally to be saying the company didn't do its
3 homework or they haven't met the test of the
4 settlement agreement, but that you did not undertake
5 your own analysis on the merits of the question.
6 Now, maybe I'm wrong with respect to some aspect.

7 Are you saying that you did undertake such
8 an analysis and, even under the allocation method and
9 all other assumptions that you would want to make,
10 even though we haven't approved it, that you have
11 undertaken an analysis on the merits and you don't
12 think PacifiCorp deserves relief?

13 A. That's correct. My testimony is trying to
14 look at the limited questions surrounding what did we
15 -- what does the rate plan provide for, and in terms
16 of looking beyond and the specific power costs that
17 are at issue, Mr. Buckley and I had conversations
18 about that and he's done even a further analysis with
19 respect to the merits of those specific costs and any
20 reasonable -- because the question of allocations is
21 is this a reasonable apportionment of costs.

22 And I think Mr. Buckley can talk to you
23 more about, under any reasonable apportionment, we
24 can't get to a point where this company should get
25 relief in Washington. I don't have that testimony,

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1 but Mr. Buckley can elaborate on that fuller and what
2 he specifically did in that regard.

3 Q. If we were to go down that road, then
4 wouldn't we at least be having to make a judgment in
5 this proceeding about the range of reasonable
6 allocation methods?

7 A. Yes and no. I think if you look at a
8 couple of fundamental points of their case, first
9 off, Washington is a winter-peaking utility, and as a
10 winter-peaking utility, in the summertime, you have
11 excess energy to sell into the market. Utah is a
12 summer-peaking utility, and it's eastern operations.

13 These costs that are underlying these
14 contracts are for summer-peaking needs. If you look
15 -- let me -- if you have Mr. Widmer's testimony, I'll
16 give you -- it just jumps off the page.

17 Q. I recall that. I recall the -- well, go
18 ahead. I didn't mean to distract everyone else.

19 JUDGE MOSS: We're going to be looking at
20 Exhibit 57?

21 THE WITNESS: No, Your Honor, Exhibit 60,
22 and then there was an update to that. I believe it's
23 161?

24 JUDGE MOSS: 160.

25 THE WITNESS: 160?

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1 JUDGE MOSS: Right.

2 THE WITNESS: Yes, sir. Which one do you
3 have in front of you?

4 Q. I have 160.

5 A. 160, okay. I'll use that one.

6 Q. Why don't you wait till --

7 A. Okay, okay. If you will note, that exhibit
8 shows that the bulk of the deferred amounts that the
9 company's requesting occur in the summer months. It
10 makes no sense to me that a winter-peaking utility
11 would be in the market buying these kinds of
12 resources to serve its load.

13 Q. So aren't you then saying that, in your
14 view, a proper allocation, once it gets all said and
15 done, would allocate new peaking plants and their
16 substitution and would allocate peak -- summer peak
17 costs to Utah?

18 A. That's correct.

19 Q. All right. But do you also agree that we
20 haven't, in this or any other state, actually come to
21 that conclusion definitively?

22 A. But, well, we sort of have in the merger.
23 In the merger proceeding, one of the benefits, and if
24 you look at the record there, one of the -- the
25 predominant benefit was the fact that Washington, as

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1 a winter-peaking utility, would have summer energy to
2 sell to Utah. So that implicit in a winter-peaking
3 -- the concept of a winter-peaking utility is the
4 ability to sell its firm resources that it doesn't
5 have into the market into the summer for the benefit
6 of customers and the benefit of the utility,
7 depending on the ratemaking treatment of those
8 off-system sales. So intuitively, their case, you
9 know, this exhibit shows that it makes no sense.

10 Q. Well, do you agree that the issue of
11 allocation is a live and contested one that is being
12 and will be litigated in the six states, and that
13 that is not completed yet? I recognize your answer
14 is go back to the merger agreement, but do you agree
15 that the matter seems unsettled among parties and
16 states at this moment?

17 A. Yes, and that's why I -- that's why my
18 testimony is that, because the company agreed to a
19 rate plan and a systematic, programmatic change in
20 its rates over a five-year period, because it's a
21 contested issue, it can't now come before you and
22 say, Well, on the basis of modified accord,
23 Washington stand-alone is below investment grade and
24 double B rating and -- it can't do that. That's what
25 my testimony stands for, is that it is contested, we

0504

1 had a five-year rate plan, and we'll get to that
2 issue at the end of the rate plan.

3 Q. But you do agree that if it were the
4 earthquake situation, you would not oppose a
5 reopening of the settlement agreement for that
6 particular purpose under the circumstances of a
7 hypothetical?

8 A. Yes, my testimony to you is, as a policy
9 matter, is that if there were an extraordinary event,
10 we would be coming before you and making a
11 recommendation for treatment of that -- that event.
12 That the rate plan, when we put it together, you
13 know, we have to assume normal course of business and
14 the kinds of things -- and something like that, you
15 know, we would have to look at those facts and
16 circumstances and come to you with a solution.

17 Q. Regarding the second paragraph of Section
18 9, I have read your testimony, but if I look at the
19 first paragraph, it has to do with a moratorium on
20 general rate filings, and that moratorium can be --
21 it does not preclude the company from pursuing
22 tariffs or rate changes for any rated purposes. The
23 second paragraph does not preclude the company from
24 submitting petitions for accounting orders.

25 And I guess we will all end up making our

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1 own judgments, but I wonder why you think the second
2 paragraph, on its face, and not going to what other
3 settling parties may have intended it, but why, on
4 its face, does it relate back to the prior list?

5 A. Because if you don't limit what the company
6 can seek for deferred accounting, you are effectively
7 providing for rate changes during the rate plan and
8 you have an open-ended -- you have a circumstance
9 where, if you recall the testimony with Mr. Larsen,
10 his representation to you was that for most any
11 extraordinary item, we can come in and seek an
12 accounting petition. And so if you did not have a
13 limitation on what could be sought for deferred
14 treatment, you've essentially opened the door for
15 rate increases throughout the rate plan and you don't
16 have what we would consider stable rates.

17 Because a deferred expense item is, in
18 essence, providing for rate relief for that single
19 item, and that's why I put that in my testimony, is
20 that you have to have some limit on what the company
21 can come forward for deferred treatment.

22 Q. But one of the problems with your
23 interpretation is that it would not allow the company
24 to come in for the ice storm or the earthquake, which
25 seems to me one of the more understandable or

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1 acceptable uses of deferred accounting.

2 A. But, then, if you put that in there, then
3 you would be in the position of saying, Well, we're
4 going to have an earthquake, we're going to have a --
5 those are extraordinary events. We don't know that
6 we're going to have those. To me, it doesn't make
7 sense to put that in there, because you expect that
8 not to happen.

9 Q. Couldn't one read this paragraph as
10 providing for exactly that? That is, this does not
11 preclude the company from filing a deferred
12 accounting petition for extraordinary costs. I'm not
13 getting to the question of what is or isn't an
14 extraordinary cost, but that -- isn't that one of the
15 natural uses of deferred accounting petitions?

16 A. But -- yes, but we wanted to limit that, so
17 that when we put together Section 9, we tried to do
18 it the other way. We could have done it that way,
19 but this is the way we chose to do it. We chose to
20 identify -- because there were some specific items in
21 the rate case that were at issue that the company had
22 treatment in other jurisdictions, and we wanted to
23 provide them that opportunity, saying, This is the
24 limitation, this is what you can bring forward.

25 Q. And I recognize you're giving your own

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1 interpretation. One of the reasons that language is
2 so important is that if it's not precise, then
3 different parties can have different intentions,
4 looking at the same language, but in the end, it is
5 the language, not the intentions that have to be
6 gauged, unless it's -- unless it's ambiguous, and
7 then, even then, the parties may have to just live
8 with the language.

9 But I want to move on to another area, if I
10 can find my notes. Just a couple of things. I think
11 in your testimony you alluded to interim rate relief
12 being subject to refund as if it always is subject to
13 refund. Do you agree that interim rate relief need
14 not always be subject to refund?

15 A. No, it need not. It's up to your -- it's a
16 discretionary -- my reading of the orders and the
17 power to grant interim relief, it may or may not be
18 subject to refund. It's at the discretion of the
19 Commission.

20 Q. I also want to ask about what happens in a
21 multi-state situation if one state simply doesn't
22 carry its burden as, say, we think it should. I
23 think you testified that that -- it protects
24 Washington consumers not to subsidize the, let's say,
25 irresponsible state, but how far does that go?

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1 Because if we are a small part of the picture and
2 other states are a very large part of the picture, at
3 what point do we watch the company suffer because of
4 the large state without it affecting our own
5 customers, as well?

6 A. I'm not sure I fully understand your
7 question. If you could maybe try --

8 Q. Well, I think I'm getting to kind of a big
9 picture issue.

10 A. Okay.

11 Q. And if you have a company that's in many
12 states, it's not going to be surprising if some
13 states look at the company in a different way than
14 the other states do. And to a degree, you could say
15 that's the company's problem, but at some point,
16 isn't it everybody's problem if the company can't
17 make ends meet because of another state, it affects
18 us?

19 A. Yes, but ultimately you're the arbiter of
20 what's the final rates for Washington, and part of
21 that is -- on an allocated result, once you have the
22 evidence in front of you, you will make a reasonable
23 determination regarding the assignment of and the
24 allocation of common costs.

25 And in Washington, if it turns out that

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1 Utah and Oregon provide -- do not provide sufficient
2 rates, at some point what we would do in Washington
3 is regulate this company truly on a stand-alone
4 basis, and that's at the point where we would be.

5 And that's one of the things that you have,
6 I think, with this company and this jurisdiction,
7 given the size. And we may have to be there at some
8 point if MSP is not successful and if Utah is adamant
9 on rolled in methodology. And we may very well be at
10 the next rate case advocating a stand-alone result
11 and making some kind of determination for what the
12 rates in Washington ought to be for a stand-alone
13 company of this size and this nature.

14 Q. I wanted to ask you about Exhibit 3-C.

15 A. Yes, I have that.

16 Q. This is a confidential exhibit, so I'll try
17 to ask some general questions. Well, first, if you
18 look at row three.

19 A. Yes.

20 Q. In your view, is this chart off the mark?

21 A. Yes.

22 Q. And have you done any analysis that would
23 allow you to say what you think row three ought to
24 be?

25 A. No, because one of the problems that I

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1 would have in looking at what row three would be is
2 dealing with forecasted results, so you have an issue
3 with the forecasted results and then, in my mind, the
4 question becomes, for the future, what should
5 Washington bear as it's fair share of costs? So
6 what's driving those declining returns -- is that
7 okay to say?

8 MR. VAN NOSTRAND: Sure.

9 THE WITNESS: What's driving those
10 declining returns are the figures -- if you refer to
11 my testimony that I have -- I have -- one second,
12 please. Let me find it here. Yes, if you'd turn to
13 page 15 of my direct testimony, on line 13, where I
14 say, Through fiscal 2006, the company's cash needs
15 for new generation are approximately 575 million, and
16 for new transmission, the amount is almost 650
17 million, what causes that adjusted return on equity
18 to decline there is the fact that Washington, under
19 modified accord, picks up system growth
20 proportionately to the growth on the rest of the
21 system. That's what's causing those figures.

22 Q. And modified accord is something you
23 disagree with?

24 A. Yes.

25 Q. All right. If row three were accurate,

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1 would you think that would weigh in favor of granting
2 the company relief or would, in your view, it still
3 not make any difference?

4 A. Well, again, the problem I have still with
5 the company's presentation is that this -- these are
6 budgeted amounts. I'd have to look at -- the way I
7 understand to apply the PNB test is what are the
8 essential cash needs and what is the immediate
9 contribution of that to those financing requirements?

10 So I would still have to do some kind of
11 analysis just to say what amounts of these could
12 reasonably be deferred and then connect the essential
13 financing requirements with the relief under interim
14 standards that the Commission would grant.

15 Q. So your answer just there depends on the
16 view that the company must meet the PNB standards,
17 including on a company-wide basis, in order to get
18 any relief here?

19 A. There may be a way to do that, I'm saying.

20 Q. All right. And then, could you look at
21 Exhibit 46?

22 A. Yes, I have that.

23 Q. If you look at column three, do you agree
24 with the methodology, not the inputs, but the
25 methodology of column three?

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1 A. I can't testify to what is a type one
2 adjustment. I don't know what that means. I'm --
3 Mr. Martin could tell you what that means.

4 Q. All right.

5 A. I can just tell you that my understanding
6 of the rules should be that these adjustments should
7 be just restating adjustments to put them on a
8 Commission basis. That's what the intent of this
9 report is to do. I do not know what type one, type
10 two and type three adjustments are, so I can't answer
11 you there.

12 Q. All right. So in terms of the actual
13 inputs here, would you have to assume some sort of
14 allocation before determining what is appropriate for
15 column two, assuming that means something to tailor
16 the chart to Washington-only?

17 A. Well, actually, it's column one, the
18 unadjusted results.

19 Q. Okay, all right.

20 A. In there, embedded in that, is the modified
21 accord methodology.

22 Q. Right.

23 A. So then those are then adjusted for type
24 one adjustments, but embedded in column one is
25 modified accord, and that's the problem.

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1 Q. All right. But in order to get to an
2 appropriate column one, appropriate in your view,
3 that is, we would have to do some kind of mini
4 allocation proceeding within this proceeding or, at
5 least in your view, decide the outside limits of a
6 reasonable allocation?

7 A. Yes, yes, you'd have to figure out -- you'd
8 have to start with column one in saying what is the
9 right basis for presenting the company's Washington
10 unadjusted results and then go to the various
11 adjustments from that point. You'd have to do that
12 exercise. So it's, first off, are these reasonable
13 type one, type two, and type three adjustments, but
14 then, not only that, is the foundation from which
15 this is built correct.

16 Q. Okay. And a different area of questions.
17 If we were to defer certain -- to allow deferred
18 accounting of certain costs, but not allow recovery
19 --

20 A. I have that in mind.

21 Q. -- and initiate a general rate proceeding,
22 do you think that that would, in the end, lead to
23 appropriate general rates and surcharges, if
24 necessary?

25 A. No, I think -- I think it would lead -- I

0514

1 mean, you'd have a rate case. You'd have the
2 findings and you'd have those issues resolved. I
3 don't know where that would end up. I'm saying it
4 would be a complicated case. And I don't think it
5 would be fair to ratepayers to defer the account and
6 prematurely end the rate plan. I think that's what's
7 -- if you're going to allow, hypothetically, I think
8 as I understand your question, if you're going to
9 provide the relief and you want to do the deferred
10 accounting, then limit it to that, because that's
11 what the company has asked you to do. And then go on
12 to a case and determine what's reasonable for
13 deferred recovery. If that's your inclination to go,
14 that's what I would recommend that you do.

15 Q. And is that more or less Mr. Larsen's or
16 maybe it's Mr. Widmer's concept of a 90-day review?

17 A. Yes. And I wouldn't go any further than
18 that.

19 Q. So under that scenario, the rate plan would
20 stay in place, there'd be some kind of proceeding to
21 determine the prudence and wisdom and perhaps even a
22 rough allocation of some deferred costs, but the
23 underlying base rates would not be affected?

24 A. Right, and then exhibit -- since Exhibit
25 160, you would have some bounds with respect to the

0515

1 amount of recovery that the company would be entitled
2 to.

3 CHAIRWOMAN SHOWALTER: Okay. Thank you. I
4 have no further questions.

5

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

7 BY COMMISSIONER HEMSTAD:

8 Q. In your answers to the Chair's questions
9 about extraordinary events, like earthquake and ice
10 storm, would you consider the West Coast price
11 dysfunction of 2001 an extraordinary event?

12 A. Yes, but we're not dealing with those costs
13 here of 2001. We're dealing with 2002 costs and the
14 forward purchases for it. But Mr. Buckley can talk
15 with you a little bit more about those specific cost
16 items.

17 Q. Assuming there were no rate plan in effect
18 at all, what's the kind of -- well, I take it your
19 testimony is that there would be no basis for the
20 company to be asking for any extraordinary relief,
21 but would you think it would be -- would it be
22 useful, from their perspective, then, to file a
23 general rate case?

24 A. Well, again, that would be -- you know, the
25 outcome would be determined by, really, you know,

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1 cost allocations, and then the other typical kinds of
2 adjustments, but there is the prospect that some of
3 the studies that come out of MSP show that there are
4 reasonable allocation methodologies that show, on a
5 normalized basis, the revenues requirements, and thus
6 rates in Washington should go down. And the company
7 would have to evaluate that. In the hypothetical
8 that we do not have a rate plan in effect, as I
9 understand your premise.

10 Q. Yes. All right. Based on the case that
11 the company has presented, I take it you would
12 conclude that there is not adequate information in
13 front of the Commission by which to make any kind of
14 accurate determination of the company's rate of
15 return or return on equity in Washington?

16 A. No, sir, and I'd go even further, and
17 that's why we entered into the rate plan, is that we
18 wanted a period of five years to get through this
19 transition for the company, not only with respect to
20 cost allocations, but transition plan savings and
21 some of the other things that we identified that made
22 it difficult during that period of time to measure
23 the company.

24 So yes, I don't think there's a reasonable
25 basis to accept any of these financial results and

0517

1 then -- for purposes of adjusting rates in
2 Washington.

3 Q. Well, on the assumption that the pricing
4 dysfunctions that occurred in the West earlier and
5 the consequences of that for many utilities, do you
6 think there would be any basis upon which the
7 Commission, on its own motion, in effect, would
8 simply terminate the plan and order the company to
9 file a rate case?

10 A. Not for this company and not for the causes
11 of the increases. For example, the rate relief that
12 Mr. Larsen talks about, you know, in his testimony,
13 regarding Utah and Oregon, that relief, that was
14 during the period when Hunter was down and there were
15 significant questions about the company's actions
16 surrounding Hunter, and then there would be the
17 question of should Washington pay for Hunter. That
18 period's behind us.

19 So now we have a new period. So now the
20 question is, for Washington, is should those summer
21 forward contracts be attributed to Washington, and
22 Staff position is no, those costs don't belong in
23 Washington. So there is no basis now for you to
24 terminate the rate plan and there is no need for you
25 to consider that Washington, in the context of the

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1 rate plan, are not paying their fair costs.

2 Q. All right. But at the conclusion of the
3 rate plan, we will be confronted with all those
4 questions?

5 A. That's correct. That was what we -- that
6 was what we attempted to craft and that was the
7 solution, and the Staff position is that rate plan is
8 still in the public interest.

9 Q. All right, okay. But accelerating that
10 timetable, you don't think it would be useful either
11 to the company or to ratepayers?

12 A. No, sir, because the rate plan -- the rate
13 plan had specific programmatic increases in the early
14 years. To offset those increases, we provided the
15 credits from the Centralia gain and the Scottish
16 power merger. So as soon as those credits expire,
17 rates for -- billing rates for consumers will go up
18 over time about 4.7 percent, I think is what Mr.
19 Griffith testified to. And so they're already going
20 to be seeing billing increases.

21 And I think that to stay the course and
22 then, at the end of the rate plan, when the company
23 has either an agreement on MSP or -- at that time it
24 can come forward and file a new general rate case.
25 And we will, if we don't have an agreement, we'll

0519

1 have a very complicated record regarding allocations
2 before you.

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

5

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

7 BY COMMISSIONER OSHIE:

8 Q. Mr. Elgin, I'd like to refer you to your
9 testimony -- I believe it's Exhibit 101.

10 A. One moment, please. Yes, sir.

11 Q. If you'll turn to page 17, I would like to
12 focus on lines 16 through 19, and then onto page 18,
13 on lines one, two and three.

14 A. Yes.

15 Q. In there you talk about the rate
16 concessions that are made in other jurisdictions for
17 special contracts and how you believe that the
18 company's presentation does not adequately allocate
19 the cost of the rate concessions or special contracts
20 to the specific jurisdiction that approves them or
21 allows them in some way?

22 A. Yes, sir.

23 Q. And my question really is is that a
24 function or a result of the modified accord or is --
25 was that a problem, maybe asked another way, with the

0520

1 PITA methodology?

2 A. It's a problem with both, and it was
3 something that, over time, both the PITA group and
4 now the MSP group is wrestling with, so it has been
5 -- it was an issue when PacifiCorp acquired the Utah
6 properties and it was also an issue because there was
7 one special contract in the state of Washington.

8 And so there's this ongoing question, what
9 do you do with special contracts, and the prior
10 allocation schemes all considered those and
11 distributed those across the system. But Mr. Martin
12 can address you -- address those specifics about how
13 that evolved and changed over time, but it is still
14 an issue, as I understand it today, with MSP.

15 COMMISSIONER OSHIE: Okay. Thank you.

16 JUDGE MOSS: All right. I think this would
17 be a convenient moment for us to take our noon
18 recess, and then, when we return, we'll see if Mr.
19 Van Nostrand has any follow-up based on the bench's
20 questions, and then we'll go to our redirect after
21 that. We'll break today until 1:30.

22 (Lunch recess taken.)

23 JUDGE MOSS: Let's be back on the record.
24 I believe we were at the point where the bench's
25 questions had prompted any follow-up, and then we'll

0521

1 go to our redirect.

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

3

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

5 BY MR. VAN NOSTRAND:

6 Q. Mr. Elgin, I wanted to follow-up briefly on
7 a couple of questions from Commissioner Oshie about
8 the treatment of special contracts in the company's
9 filing. And I think he directed you to your
10 testimony on page 17 and 18, where you indicated that
11 jurisdictions that grant special contracts should
12 accept the consequences of these rate concessions
13 under a reasonable allocation scheme, and the
14 company's presentation in this case does not do so;
15 is that your testimony?

16 A. Yes.

17 Q. You understand that the -- it's your
18 understanding that the company's treatment of special
19 contracts in the case is in accordance with modified
20 accord?

21 A. That's my understanding.

22 CHAIRWOMAN SHOWALTER: Is your microphone
23 on?

24 THE WITNESS: Yes, that's my understanding.

25 Q. Can I direct you to Mr. McDougal's

0522

1 testimony.

2 JUDGE MOSS: Looking at his direct?

3 MR. VAN NOSTRAND: Yes, page five.

4 JUDGE MOSS: That's Exhibit 50-C.

5 Q. Lines two through five. For purposes of
6 calculating factors and allocating revenues, all
7 special contracts are directly assigned to the state.
8 Therefore, the revenues and loads of Boise Cascade,
9 the only special contract customer in Washington
10 during any part of the period, are both allocated to
11 Washington. In your view, is that consistent with
12 the modified accord treatment?

13 A. That's not what my testimony was
14 referencing to. It has to do with the special
15 contract customers in the company's other
16 jurisdictions, and that would be, for example, Idaho
17 and Utah, so that was -- to reconcile this statement
18 with my testimony here, I was talking about the
19 special contracts in the company's other
20 jurisdictions, in Idaho and Utah.

21 Q. Well, then I'd direct you to the testimony
22 of Jeffrey Larsen, the rebuttal testimony, page 15.

23 JUDGE MOSS: Give us an exhibit number.

24 THE WITNESS: Sixty-two, Your Honor, I
25 believe. Oh, no, it's not, excuse me.

0523

1 Q. Larsen is 8, Exhibit 8, page 15,
2 specifically, lines six through ten. The results
3 presented by Mr. McDougal in his direct testimony
4 were prepared with the cost and revenues for all
5 special contracts assigned to their home states.
6 None of the costs or revenues associated with special
7 contracts in other states have been assigned to
8 Washington, and all allocation factors have been
9 adjusted accordingly.

10 Is it still your testimony that the
11 company's filing in this case suffers from the
12 deficiency that you describe on page 17?

13 A. Yes, that was my understanding. I had a
14 conversation with Mr. Martin in that regard, and so
15 to the extent that that is the basis, that's my
16 understanding. I did not do a study and look at that
17 issue specifically. That's my understanding of how
18 modified accord treats special contract revenues.

19 Q. But isn't the point of his testimony is
20 that, with respect to the treatment of special
21 contracts, the company is not following modified
22 accord because the jurisdictions felt that treatment
23 was no longer acceptable?

24 A. And again, my testimony is based on my
25 understanding of how modified accord works and what

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1 was underlying, and I would ask that you take that
2 issue up with Mr. Martin, who's better prepared to
3 answer that, because he would have studied that.
4 That's just my understanding of how it works,
5 notwithstanding what you pointed out in this
6 testimony.

7 MR. VAN NOSTRAND: Your Honor, I've got a
8 cross-examination exhibit that I'd like to
9 distribute. It arose in connection with Mr. Elgin's
10 responses to questions from Chairwoman Showalter
11 about how Section 9 of the rate plan stipulation is
12 implemented. May I distribute that exhibit?

13 JUDGE MOSS: Why don't you hand that up and
14 we'll see what it is. We'll mark this as 111 for
15 identification.

16 MR. CEDARBAUM: What was the number, again,
17 Your Honor?

18 JUDGE MOSS: One-eleven.

19 Q. Mr. Elgin, do you have before you what's
20 been marked for identification as Exhibit 111?

21 A. Yes.

22 Q. And will you accept, subject to check, that
23 this is a Staff recommendation regarding a company
24 petition for deferred accounting filed on June 23,
25 2000, with respect to how -- it was seeking to

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1 capitalize and amortize the cost of a voluntary
2 enhanced early retirement program?

3 A. Yes, but I note that Mr. Martin worked on
4 that and, notwithstanding, I think he'd probably be
5 the person that would best be able to respond to
6 questions about this. Not that -- I mean, I can
7 accept it, but this is the first I've seen this
8 document.

9 Q. Will you -- turning to the top of page two,
10 do you see the language in there indicating that this
11 petition was reviewed in light of the just concluded
12 rate plan stipulation and nothing precludes the
13 company from filing this type of accounting petition?

14 A. Yes, I would then direct you to the next
15 paragraph, which seems to me that what this is also
16 designed to do is to -- in order to do this, to
17 implement the transition plan to accompany -- to
18 realize the operational efficiencies from the merger
19 savings credit. So I think that that's what this is
20 designed to do, is to accept the amortization of
21 those costs and to recognize the -- so the company
22 could realize the merger savings credits. But,
23 again, I think that Mr. Martin would be the one to
24 specifically ask questions about this.

25 Q. Well, I'd like to refer to that petition

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1 and what you know of it now as it relates to your
2 testimony about how Section 9 is to be interpreted.
3 Is it fair to conclude that this petition to
4 capitalize and amortize early retirement expenses
5 does not fall within the categories 9-A through 9-F
6 of the stipulation?

7 MR. CEDARBAUM: Your Honor, I'll object.
8 The witness has indicated that he's not familiar with
9 it. He's reviewing it just today. Mr. Martin will
10 be on the stand this afternoon. He can ask and
11 answer questions about it, so I just think it's
12 beyond the scope of this witness' knowledge at this
13 time.

14 JUDGE MOSS: Well, I don't think it is.
15 He's indicated some familiarity and some
16 understanding of what this petition concerned, and
17 the question does follow up directly with regard to
18 questions that were put to Mr. Elgin earlier and to
19 which he responded concerning the workings of Section
20 9, so I think it's appropriate to allow it and I'll
21 overrule the objection.

22 THE WITNESS: Well, again, is your question
23 about Section 9? This would not be one of the
24 carve-outs in Section 9. Is that your question?

25 Q. Yes.

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1 A. Yes.

2 Q. And is it also true that this does not fall
3 within the scope of the second sentence of the
4 section -- of the paragraph following the list in
5 Section 9, which reads, The company shall ensure that
6 items currently treated as regulatory assets under
7 authorizations from other states that are proposed
8 for inclusion in Washington at the end of the rate
9 plan period are supported by necessary accounting
10 authorizations in Washington. This petition does not
11 fall within the scope of that sentence, either, does
12 it?

13 A. One moment, please. I need to check a date
14 here. And when -- would you -- all I would note is
15 the stipulation was served on the parties June 20th
16 of 2000, and so when was this accounting petition,
17 when was the request for the deferred treatment, when
18 was this filed with the --

19 Q. It was filed on June 23, and the date that
20 it was presented to the Commission was August 30th,
21 after the order approving the stipulation was issued.

22 A. Well, then, I would say that, again, you'd
23 have to ask Mr. Martin this. I would say that this
24 petition for accounting is in order to recognize the
25 cost associated to implement the company's transition

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1 plan, so I would say that it is not consistent with
2 Section 9-A -- the second paragraph of Section 9, but
3 it was a filing in order to implement and provide the
4 company the opportunity to realize the merger
5 savings. So I would say it was a contemporaneous
6 accounting petition filed at that time. So that's
7 how I view this.

8 MR. VAN NOSTRAND: Okay. I have no further
9 questions. I'd like to move the admission of Exhibit
10 111, Your Honor.

11 MS. DAVISON: I object, Your Honor, on the
12 basis that this particular document has many
13 complicating factors, and I think that if we are
14 going to put this in the record as a stand-alone
15 document, we need to have some testimony as to
16 exactly what's going on.

17 For example, it's my understanding that
18 this did not result in any rate changes, and I think
19 that to suggest that this has some particular type of
20 analysis based on the testimony of a witness who
21 didn't have anything to do with this is premature. I
22 think that, to the extent there's anything valid to
23 be gained from this particular document as it relates
24 to an interpretation of the rate plan stipulation, it
25 should come through the individuals who know

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1 something about it.

2 JUDGE MOSS: Well, I think to the extent --

3 MR. CEDARBAUM: Your Honor.

4 JUDGE MOSS: -- I can discern any substance
5 to that as an objection -- I'll hear Mr. Cedarbaum,
6 but that -- are you questioning the foundation of the
7 document or --

8 MS. DAVISON: I guess I'm questioning
9 relevance, I'm questioning the intent to use this
10 document to suggest that some type of accounting
11 petition was permitted under the rate plan, because I
12 think that this is a very complex issue and I don't
13 think that you can just reach that kind of brief
14 conclusion.

15 I'm suggesting that this is not a document
16 that can come in through cross-examination of Mr.
17 Elgin, because he has no basis upon which to give it
18 a foundation.

19 JUDGE MOSS: Okay. Mr. Cedarbaum.

20 MR. CEDARBAUM: I would join in that
21 objection, but I would also offer, in the
22 alternative, that the admission or proposed admission
23 be held in abeyance until Mr. Martin testifies, and
24 he can explain more about this document, then maybe
25 it will become relevant. But at this stage, I don't

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1 -- I would question the relevance, as well. I think
2 there's an alternative way of going, though.

3 JUDGE MOSS: Okay. All right.

4 MR. VAN NOSTRAND: Could I just respond
5 briefly, Your Honor?

6 JUDGE MOSS: Well, sure.

7 MR. VAN NOSTRAND: I will stipulate that
8 this accounting petition does not propose to change
9 rates. It's a simple capitalization of up-front
10 costs in connection with early retirement that would
11 be amortized during the rate plan period.

12 And the purpose of offering it is this
13 seems to be the sort of accounting petition that, in
14 Mr. Elgin's testimony this morning, would not be
15 permitted under Section 9, and the Staff analyst who
16 analyzed this petition looked at it and reached a
17 different conclusion. It's offered for that limited
18 purpose. I believe it's -- the document and the
19 proposal that's being approved here is fairly simple
20 and straightforward and I will concede does not
21 propose to change rates.

22 JUDGE MOSS: Well, uncharacteristically, I
23 think I would like to carry this for the time being,
24 since we are going to have Mr. Martin on the stand
25 and he apparently is one of the authors of this

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1 document. Then perhaps we will have some additional
2 foundation when he takes the stand. So for the
3 moment I will not rule on the motion to admit or on
4 the objection, and we'll see what Mr. Martin might
5 have to say about the document.

6 MR. CEDARBAUM: May I proceed with
7 redirect?

8 JUDGE MOSS: I'm getting my thoughts
9 organized, Mr. Cedarbaum. Give me half a second
10 here. I need to make a note, and then we'll proceed
11 with that. All right. So we are to the point of
12 redirect examination. Thank you. Go ahead.

13 MR. CEDARBAUM: Thank you. I don't have
14 very much redirect.

15

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

17 BY MR. CEDARBAUM:

18 Q. Just to start, though, Mr. Elgin, with a
19 couple of factual questions. You were a part of a
20 negotiating team for Staff in the rate plan
21 stipulation; is that right?

22 A. Yes.

23 Q. Do you recall which of the parties to the
24 stipulation was responsible for drafting the
25 stipulation?

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1 A. The company, PacifiCorp.

2 Q. And so they were the ones who put together
3 the first draft of the stipulation?

4 A. Correct.

5 Q. You also were asked some questions about
6 the structural realignment proposal, and I think, in
7 Exhibit 109, there was a motion to dismiss by
8 Commission Staff in that docket. Do you recall
9 whether and how that particular application was
10 dismissed or was resolved for the Commission?

11 A. The company filed to have the petition
12 withdrawn.

13 Q. And that was done voluntarily?

14 A. That's correct.

15 Q. That was not done in response to anyone's
16 motion or by any kind of compulsion?

17 A. No.

18 Q. In the course of your testimony, you
19 referenced some evidence that you believe showed that
20 Washington rates -- revenue requirement could be
21 reduced by -- I think you said about ten percent?

22 A. That's correct.

23 Q. Turning to Exhibit 29.

24 A. Yes, I have that.

25 Q. Is this the evidence that you were

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1 referring to?

2 A. Yes, if you turn to --

3 CHAIRWOMAN SHOWALTER: Can you just wait
4 till people have it?

5 THE WITNESS: Oh, I'm sorry.

6 Q. Go ahead.

7 A. Yes, if you turn to -- it's a one-page
8 exhibit, and under the column entitled Washington,
9 and Study 52.3 shows the fixed assignment ownership
10 model, which is, in my mind, a Washington stand-alone
11 result. It shows that, in 2003, the revenue
12 requirements would be reduced by 11.4 percent, and
13 because of the modeling assumptions regarding some
14 relicensing costs for the hydro, it goes, in 2008, a
15 reduction of 6.8 percent, and then, after those costs
16 have been included, it would appear that in 2012, the
17 model shows Washington revenue requirements go down
18 by 14.7 percent.

19 So this would be, in my mind, an example of
20 a reasonable allocation study that one could present
21 to show a Washington stand-alone result.

22 Q. Is it your testimony that the Commission --
23 are you recommending that the Commission adopt this
24 type of approach for purposes of ratemaking in this
25 case?

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1 A. No, we're not in this case making that
2 recommendation. The purpose of the testimony was
3 just to show the Commission that there are a range of
4 outcomes, but clearly no one has been accepted yet.

5 Q. Turning to a different subject, you were
6 asked a number of questions by Mr. Van Nostrand about
7 the financial analysis that you did or did not do in
8 this case with respect to the PNB standards. Do you
9 recall that?

10 A. Yes, I do.

11 Q. Were you in the hearing room on -- it was
12 probably Thursday and Friday morning, when Mr. Larsen
13 testified?

14 A. Yes, I heard his testimony.

15 Q. And he testified about the financial status
16 of the total PacifiCorp operations; is that right?

17 A. Yes, he did.

18 Q. Can you just generally, without -- and not
19 a long dissertation here, but just a brief
20 description of what your recollection is?

21 A. The recollection is the company is an A
22 rating with -- it's a negative outlook, but it has
23 currently an A rating.

24 Q. And is your recollection that the company
25 was or was not able to finance on reasonable terms?

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1 A. My recollection and the document that we
2 introduced through cross-examination shows that the
3 company clearly can finance on reasonable terms.

4 Q. Was there anything in the company's direct
5 testimony on that subject?

6 A. No, there was not.

7 Q. Is there any -- do you have any reason to
8 dispute that, Mr. Larsen's conclusions in that
9 regard?

10 A. No.

11 Q. You also, in the course of your testimony,
12 discussed Utah and the rolled in cost allocation
13 methodology that's used there. Do you recall that?

14 A. Yes, I did.

15 Q. Are you aware of any attempt by the company
16 in Utah to try to alter that situation?

17 A. No, my understanding, in response to a
18 Staff data request, is the company is proposing and
19 will continue to use rolled in for purposes of
20 jurisdictional revenue requirements in Utah. So the
21 irony I find is that they're advocating that the
22 Commission use that and accept a financial portrayal
23 of the Washington stand-alone results in this
24 jurisdiction, but yet, in its largest jurisdiction,
25 not advocate the same cost methodology for its Utah

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1 operations.

2 Q. Would you consider that to be a barrier to
3 this company's cost recovery?

4 A. The Utah decision is, in my mind, a barrier
5 to the company's ability to recover its cost of
6 service.

7 Q. I guess I mean the company's reluctance or
8 lack of any effort in Utah to try to change the
9 rolled in allocation methodology. Is that a barrier
10 to having its cost allocation shortfall resolved?

11 A. Yes, it is.

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

14 JUDGE MOSS: Okay.

15

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

17 BY CHAIRWOMAN SHOWALTER:

18 Q. I would like to have a follow-up question
19 on Exhibit 29 that you were just reviewing.

20 A. Yes.

21 Q. I had earlier written down or circled on
22 this exhibit that it's a 1999 forecast. And were you
23 citing this for the proposition that there's evidence
24 in the record that would support a rate decrease? Is
25 this the evidence, or am I off base?

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1 A. It's evidence to suggest that allocations
2 do indeed matter, that -- Mr. Larsen's testimony
3 saying that it doesn't matter what you pick, it's all
4 about the same, so accept our proposal. And this is
5 clear evidence that how you allocate cost does indeed
6 matter. It's not for the proposition that rates
7 should be reduced; it's for the proposition that how
8 you allocate cost has a significant outcome on the
9 results that you obtain, and it further supports the
10 Staff's recommendation to let the rate plan run its
11 course. Once we get to allocated results, then we
12 can get to some determination about overall revenues.
13 But this study does suggest that, on the basis of
14 these modeling assumptions, if a rate case were filed
15 today, one could come in and argue that rates should
16 be reduced.

17 Q. All right. Then I think I did understand
18 that the -- your testimony in this chart, but if we
19 were, in a general rate case, redetermining rates, we
20 would not be using a 1999 forecast, would we?

21 A. No, but we would -- but the '99 forecast,
22 we would have a different test period, but to the
23 extent -- I would say that this is a '99 forecast.
24 The likelihood of the results from '99 to 2003 being
25 accurate are better than for 2012, in terms of how

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1 this model plays out. So yes, we would not use a
2 forecast; we would use a more recent test period, but
3 I would suggest that the modeling assumptions and the
4 underlying things might not be that far off. But I
5 would place very low probability on the 2012 results
6 from this table, because that's just so far off.

7 Q. All right. But are you saying that if we
8 were to use a new test period, such as the year 2000,
9 you don't think it would make a very big difference,
10 or we just don't know if it would make a very big
11 difference?

12 A. I'm saying the likelihood -- if you were to
13 accept this study and somebody would come and
14 advocate this and say this is proper and it turned
15 out, under that hypothetical, you agreed, this
16 outcome would very likely occur, this 11.4 percent
17 reduction, because -- I thought your question was
18 because this is based on a '99 forecast.

19 Q. I think my question is is it -- how much
20 difference might it make that this is using a '99
21 forecast versus some later period, which we would now
22 have available?

23 A. It might make some difference, but probably
24 not a lot, because 2003 isn't that far removed from
25 1999, is what I'm suggesting.

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1 Q. Yes, I hear you, and yet it seems to me
2 there have been some fairly major dynamics from 1999
3 to 2003. Whether they make a difference in this
4 forecast, I don't know.

5 A. I don't know, either.

6 CHAIRWOMAN SHOWALTER: All right. Thank
7 you.

8

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

10 BY COMMISSIONER HEMSTAD:

11 Q. Well, pursuing that a further step, I was
12 reading that exhibit to be describing the
13 methodologies used and the differences. If that's
14 the case, wouldn't at least roughly the proportionate
15 differences be approximately the same? In other
16 words, if the cost factors overall, on a gross basis,
17 change, wouldn't the proportionate allocation amounts
18 stay roughly the same, looking at the last example
19 you were describing?

20 A. Well, I'm not sure I can answer it
21 proportionately. What I can say is the thing that
22 drives that study is the underlying assignment of
23 resources to Washington, so that has an overriding
24 factor on anything else that might affect the
25 assumptions. But that is clearly the factor that

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1 impacts that study result, is how -- what specific
2 resources are assigned to serve Washington load.
3 That has more impact than anything else
4 proportionately, is the best way I can answer it.

5 JUDGE MOSS: I have nothing. If we have
6 nothing further for this witness?

7 MR. VAN NOSTRAND: Quick cross?

8 JUDGE MOSS: All right.

9 MR. VAN NOSTRAND: Thank you, Your Honor.
10

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

12 BY MR. VAN NOSTRAND:

13 Q. Sticking with Exhibit 29, clearly you've
14 identified a scenario that's probably the most
15 clearly favorable to Washington. Is it your
16 impression that this particular approach has any
17 reasonable chance of being the solution adopted
18 through the MSP process?

19 MR. CEDARBAUM: Your Honor, I'll object to
20 the form of the question as being -- not only that,
21 but argumentative. A characterization of more or
22 less favorable is Mr. Van Nostrand's testimony, not
23 this witness' testimony.

24 JUDGE MOSS: I'll sustain that objection.
25 Anything else?

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1 MR. VAN NOSTRAND: Can I try to restate the
2 question?

3 JUDGE MOSS: Well, you may rephrase it, if
4 you wish.

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

6 Q. Is it your testimony, based on what you
7 know about the MSP process, that this particular
8 scenario shown in fifty-two-three has any likelihood
9 as being the solution recommended through MSP?

10 A. It's likely that -- it's a solution that
11 Staff could recommend, and then what the Commission
12 does with it is up to them. In terms of the
13 likelihood, I can't answer, but I'm saying that it is
14 a likely outcome that the Staff could advocate and
15 other parties in Washington could very well advocate.

16 Q. But in terms of the position of the other
17 states, do you have any knowledge as to whether or
18 not this particular scenario would be found
19 acceptable by any other state participating in MSP?

20 MR. CEDARBAUM: Your Honor, I'll object to
21 the form. This calls for speculation. If he can
22 provide some foundation for it, okay, but --

23 JUDGE MOSS: I think Mr. Elgin has
24 demonstrated a sufficient familiarity with this realm
25 that he can express an opinion as to whether this is

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1 a scenario that other states would be likely to
2 support.

3 THE WITNESS: No, I don't think other
4 states would support it, but that does not
5 necessarily mean that this Commission would not
6 accept it.

7 Q. And one question on the impact of the
8 rolled in methodology. Is it your testimony that
9 Utah's adoption of the rolled in methodology has had
10 any impact on the company's calculation of the
11 Washington-only results in this case?

12 A. I guess I'm -- could you please repeat it?
13 I didn't get it. I didn't get your question.

14 Q. I understand your position that Utah
15 adopting a rolled in has created a regulatory hole.
16 Has that fact had any impact on the company's
17 calculation of Washington-only results in this
18 filing?

19 A. It does to the extent that if the model
20 with the projections, that was the exhibit that
21 showed the declining ROEs, so to the extent that Utah
22 grows disproportionately or at the margin, it
23 adversely impacts Washington, because now that --
24 those costs and how Washington is allocated cost
25 based on loads is impacted, is my understanding of

0543

1 the model.

2 Q. So you're assuming that the allocation
3 factors are not adjusted over that period in response
4 to what the projected load changes are?

5 A. I have not -- that's my assumption, yes.

6 MR. VAN NOSTRAND: I have nothing further.

7 MR. CEDARBAUM: Just a couple, Your Honor.

8 JUDGE MOSS: All right.

9 MR. CEDARBAUM: Sorry.

10 JUDGE MOSS: We don't want to let Mr. Elgin
11 off the stand prematurely.

12

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

14 BY MR. CEDARBAUM:

15 Q. Sticking with Exhibit 29, and given your
16 discussion that you had earlier about this exhibit,
17 is it correct that the fixed assignment ownership
18 model would be the -- have the greatest impact --
19 would have the greatest impact on Utah in terms of
20 increasing its revenue requirement in 2003?

21 A. Yes, it would.

22 Q. So would that be the least favorable to
23 Utah?

24 A. Yes.

25 Q. Do you have any -- based on your

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1 understanding of the MSP process, do you have any
2 understanding as to whether or not that would be
3 acceptable to Utah?

4 A. I would just assume that it would not be
5 acceptable to them.

6 Q. Do you have any understanding as to whether
7 or not it would be acceptable to PacifiCorp, since
8 Utah is its largest jurisdiction?

9 A. It's very unlikely that PacifiCorp would
10 accept that because of the impact on the company.

11 MR. CEDARBAUM: Thank you.

12 JUDGE MOSS: All right. Mr. Elgin, I think
13 that the paring has ceased, so we'll allow you to
14 step down. Thank you very much for your testimony.

15 THE WITNESS: You're welcome.

16 Whereupon,

17 ALAN P. BUCKLEY,
18 having been first duly sworn by Judge Moss, was
19 called as a witness herein and was examined and
20 testified as follows:

21 JUDGE MOSS: Thank you. Please be seated.

22 Mr. Cedarbaum.

23 MR. CEDARBAUM: Thank you.

24

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

0545

1 BY MR. CEDARBAUM:

2 Q. Mr. Buckley, if you could please turn to
3 Exhibit 115 for identification?

4 A. Yes.

5 Q. Is that your direct testimony?

6 A. Yes, it is.

7 Q. And you have no accompanying exhibits; is
8 that right?

9 A. No, I don't.

10 Q. If I were to ask you the questions that are
11 set forth in Exhibit 115, would your answers be the
12 same?

13 A. Yes, they would.

14 Q. You have no corrections to be made?

15 A. No.

16 MR. CEDARBAUM: Your Honor, at this time I
17 would offer Exhibit 115 and make Mr. Buckley
18 available for cross-examination.

19 JUDGE MOSS: All right, 115, there being no
20 objection to it, will be admitted, and Mr. Buckley is
21 available for cross-examination. Mr. Van Nostrand.

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

24

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

0546

1 BY MR. VAN NOSTRAND:

2 Q. Good afternoon, Mr. Buckley.

3 A. Good afternoon.

4 Q. I'd like to sort of follow your bullet
5 point outline that you've got on pages three and four
6 of your testimony, and it seems one of the issues you
7 make is that I think you say in your testimony the
8 issue that affects Washington customers the greatest
9 is the cost allocation issue. Do you remember that
10 from your testimony?

11 A. Yes, I do.

12 Q. You go on to say that the lack of an
13 approved allocation methodology makes the company's
14 use of its proposed base NPC, net power cost, only
15 more inappropriate. Do you recall that?

16 A. Yes.

17 Q. I'm trying to figure out how the cost
18 allocation issue interrelates with the baseline. If
19 costs are allocated away from Washington, isn't the
20 effect to produce a lower baseline?

21 A. Yes.

22 Q. And a lower baseline, in turn, would
23 produce higher deferrals; correct?

24 A. Yes.

25 Q. And that's because the difference between

0547

1 the actual NPC and the baseline NPC would be larger;
2 correct?

3 A. Yes.

4 Q. Now, is it fair to say that the essence of
5 the Staff testimony in this case is not that more
6 costs should be allocated to Washington, but rather,
7 that fewer costs should be allocated to Washington;
8 correct?

9 A. Not entirely. I think that the essence of
10 my testimony is that there is no appropriate level of
11 power supply costs to use as a base level no matter
12 what the allocation scheme, and that's why, in my
13 testimony, that I said it's more inappropriate. I
14 believe it's inappropriate for other reasons besides
15 the lack of an allocation -- agreed allocation
16 methodology.

17 Q. But just looking at the Staff position with
18 respect to level of costs that should be allocated to
19 Washington, you would agree, wouldn't you, that
20 generally the tenor of the Staff testimony is that
21 modified accord tends to allocate more costs to
22 Washington than should be allocated to Washington?

23 A. What my testimony is is that there are some
24 costs associated with the leftover remnants of the
25 power crisis that probably would not or should not be

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1 allocated to Washington.

2 Q. My question has to do with the impact of
3 the cost allocation methodology on the baseline issue
4 and whether or not using a method other than modified
5 accord would likely produce a lower baseline, rather
6 than a higher baseline?

7 A. No, I don't think you can say that. I
8 mean, again, as my testimony says, Staff does not
9 believe there is a baseline, so your question assumes
10 that that's a given. And again, what I'll say is
11 that my testimony says that, for various reasons,
12 that -- and what the company agreed to, that there is
13 not an established net power supply level. And
14 there's reasons for that. And if you were trying to
15 use what the company filed in its last rate case as a
16 base level for a deferred calculation now, the
17 allocation issue only makes it more inappropriate.
18 I'm not stating anything about any appropriate level
19 or whether it's up or down.

20 Q. But I believe you did agree with me that if
21 costs are allocated away from Washington, the effect
22 is to produce a lower baseline; correct?

23 A. Well, again, and I'll go back to if you
24 take the hypothetical that there is some agreed
25 baseline and you allocate cost away from that, then

0549

1 yes, that would go lower.

2 Q. And I think another point you make in your
3 bullet point, I think it's number two on the bottom
4 of page three, is that the stipulation left
5 unresolved many power supply issues. And we asked
6 you in Exhibit 1 -- or Data Request 125, which is
7 Exhibit 117, regarding the effects of these
8 unresolved power supply issues on the baseline.

9 And turning to your response on page two,
10 you indicate, It's unknown whether Staff's final
11 analysis of such issues would likely have led to a
12 recommended increase or decrease in normalized power
13 costs for the company's Washington operations. Any
14 such prediction would require speculation. Do you
15 recall that from your response?

16 A. Yes.

17 Q. So is it fair to say that you're saying
18 it's a -- it's just as likely that you could have
19 proposed a higher baseline, once these power supply
20 issues were resolved, than a lower baseline?

21 A. Well, again, baseline is your term. If, I
22 think, as alluded to earlier by Mr. Elgin, the rate
23 plan and the stipulation was in effect based on a
24 black box settlement. So again, as my testimony
25 states, there was no established rates or no

0550

1 established levels of net power supply cost.

2 What this response says is that I looked at
3 a number of power supply issues, a number of possible
4 adjustments, recommendations, and when added up,
5 would have arrived at a range of power supply expense
6 levels, as well as a range of transmission expense
7 levels, as well as a range of power supply-related
8 base -- rate base and transmission rate base.

9 And in my part, I gave those -- or
10 discussed and went over those range of possibilities
11 with those people negotiating the settlement, and the
12 agreement rate plan came out of that. There was --
13 we did not -- as my response says, we did not
14 calculate a single normalized or recommend -- Staff
15 recommended normalized net power supply level.

16 Q. Well, let's use your term, normalized net
17 power supply level. Do I take it from your response
18 to 125, Exhibit 117, that it's just as likely your
19 adjustments would have increased the normalized net
20 power supply level as decreased the normalized net
21 power supply level recommended by Staff in the case?

22 A. Well, again, recognizing that it was a
23 black box, I can tell you that, within the range of
24 levels and expense levels and rate base levels I was
25 looking at, there was scenarios where power supply

0551

1 expense levels were greater than what was even
2 requested by the company.

3 There was also the interaction between that
4 and power supply rate base levels, transmission rate
5 base levels, expense levels of other company expenses
6 that resulted in the overall revenue requirement
7 position that we took in the stipulation.

8 As you know, setting normalized power
9 supply expenses is somewhat of an art. It's not an
10 exact science. And there can be wide ranges in
11 possible outcomes based on the assumptions that you
12 use in an analysis. Ultimately, you come up with a
13 -- in a fully-adjudicated rate case, you come up with
14 a recommended level. We did not do so in the last
15 rate case. It was settled.

16 Q. If we turn on page nine to the list of
17 these unresolved power supply issues, one of the
18 issues you list, your first bullet on line four, is
19 the appropriate power supply model to use. And was
20 it likely that Staff would propose a power supply
21 model that would suggest higher normalized power
22 costs for the company?

23 A. It could have happened, and that could have
24 been followed by a recommended lower expense level
25 than something else or a higher than something else.

0552

1 Q. And the same thing, the next line, water
2 record, this is the 40-year versus 50-year versus
3 rolling 40?

4 A. Yes.

5 Q. Do you think, on that issue, Staff would
6 have proposed a water year method that resulted in
7 higher normalized power cost for the company?

8 A. All I can tell you is the scenarios and
9 ranges that I looked at, and some of them are in
10 isolation, some of them were not, that there were
11 scenarios in which the power expense levels in that
12 case, if I recall, were above those recommended in
13 the company. That does not mean that's what we would
14 have recommended. And again, recognizing that the
15 power supply expense portion of the company's rates
16 is only a part of it, there may have been an
17 adjustment in power supply expense levels and a
18 corresponding adjustment somewhere else that would
19 have resulted in who knows. That's common and normal
20 in a black box type settlement.

21 Q. Now, the issue -- the next bullet, the
22 price issues related to specific wholesale contracts.
23 So in order to result in a higher normalized level of
24 net power costs than the company is proposing, you
25 basically would be saying, for a purchase, that the

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1 company didn't pay enough?

2 A. No, I did not -- this is a list, a
3 reluctant list, I might add, of issues that I put
4 out. I do not say anywhere in these whether the
5 ultimate result of that analysis would have been up
6 or down. I would hope that my recommendation would
7 be based on something principled, not whether it
8 results in the company's net power supply costs going
9 up or down. So again, on any of these bullet points,
10 there is no presumption or anything whether Staff's
11 ultimate recommendation in total would have been up
12 or down.

13 Q. I want to go back to your bullet list on --
14 the next one on -- bullet at the top of page four, I
15 think you make the reference that another problem
16 with the company's proposal is it tracks changes in
17 virtually all power supply expenses.

18 It's your understanding, isn't it, that the
19 company is proposing this deferral be in place only
20 for a specified period of June 1, 2002, through May
21 31, 2003?

22 A. That's correct.

23 Q. And so it's not a permanent mechanism;
24 correct?

25 A. Well, the initial time period is such that

0554

1 you just stated. However, there is significant
2 testimony in Mr. Widmer's -- in Mr. Widmer's
3 testimony, significant discussion about future power
4 supply expense levels and how they're higher than
5 what the company anticipated, so I can only presume
6 that that's in there for a reason and that one of
7 those reasons might be the extension of any deferral
8 mechanism into that future time period.

9 Q. Does the company state anywhere that that's
10 its intention?

11 A. It doesn't state that it isn't. I heard
12 testimony yesterday or Thursday along those lines,
13 that, at the present time, it is not the company's,
14 you know, intention to do that. But I also must add,
15 on this portion on my testimony, that the -- that the
16 time period, I think, is somewhat irrelevant. The
17 fact is is the company's proposal tracks virtually
18 every single change in any power supply expense
19 level, and that's what I'm referring to, not the time
20 period. If that was for one day, it would be one
21 day, if it's for a year, it was a year. It still
22 tracks every single change in the company --
23 virtually every single change in the company's power
24 supply expense load.

25 Q. Given that the mechanism is only proposed

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1 to be in effect for a year, wouldn't you agree that
2 one advantage is it's relatively simple to calculate,
3 in terms of just taking the actual net power costs
4 and subtracting at least what the company defines to
5 be the base net power cost?

6 A. No, I think quite the opposite. I think
7 that, given that every single item is tracked and
8 those changes put into the calculation or affect the
9 calculation, if you are looking at each and every
10 power expense item, and there's many of them, it
11 makes it even more complicated, no matter what the
12 time period, because it's not just limited to two or
13 three single items; it's limited to load -- I mean,
14 it includes changes in load due to weather or
15 generation due to weather, generation due to -- I
16 guess hydro conditions, I should say. Every single
17 power supply item is subject to tracking and that,
18 and I think that complicates it greatly.

19 Q. You also say in that third bullet that, in
20 your view, the company's proposal shifts the risk of
21 power supply cost variation to ratepayers. Given
22 that the company's not proposing that its power cost
23 recovery mechanism on a permanent basis, it doesn't
24 really shift risks any more than any rate increase
25 does, does it?

0556

1 A. Well, I -- during the year that it's in
2 effect, if there's a change in power supply,
3 customers will pick up those costs. So to me, that's
4 shifting risk.

5 Q. Well, in terms of shifting risk to
6 customers, one of the points the company made in its
7 direct testimony is that, prior to the proposed
8 deferral period, the company has borne about \$90
9 million in excess net power cost.

10 Do you agree that the company has borne all
11 the impacts associated with the Western energy crisis
12 that were incurred prior to the proposed start of the
13 deferral period?

14 A. Well, that's not the time period that this
15 deferral is referring to, so I didn't do extensive
16 analysis on those costs, but certainly there was a
17 power crisis. To the extent that the company bore
18 those expense levels because of that or other
19 factors, based on other causes, is something that I
20 did not look at extensively.

21 I certainly think that, on a company basis,
22 if there were extraordinary expenses, and by that I
23 mean expenses well above what the various regulatory
24 bodies would have included in rates, that there's a
25 possibility that they have absorbed them.

0557

1 Q. And is the fact that or the possibility
2 that the company may have absorbed those, is that
3 something you take into account when you talk about
4 shifting risks to customers that the company --

5 A. No.

6 Q. -- that the company bore these costs?

7 A. Well, again, I haven't determined that
8 those costs have anything to do with Washington
9 customers, so it's premature to say that. If there
10 were costs during the rate plan -- not the rate plan
11 period; the deferral period that were indeed
12 extraordinary costs and in our opinion, or Staff's
13 opinion, should be picked up by ratepayers, then
14 certainly, as part of an evaluation of any kind of
15 recovery mechanism, you know, I might include a
16 consideration of risk factors that had been.

17 But to go backwards and say that something
18 should have been done because the company didn't
19 react or didn't come in during a period prior to the
20 rate plan or prior to the deferral period is
21 something that I did not look at.

22 Q. The next bullet you mention on page four of
23 your testimony, you make the point that the
24 methodology for calculating actual net power cost is
25 affected by many of the same unresolved issues that

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1 were present in the prior case, and I -- do I
2 understand by this point that you may have or Staff
3 may have some proposed adjustments with respect to
4 any amounts or certain amounts that the company would
5 include in this deferred account?

6 A. Yes, there's certain items that are
7 included in the calculation of the actual net power
8 costs that, again, without predetermining what the
9 result of that recommendation would be, are still
10 there. You know, items such as the factual -- well,
11 there's items associated with contract prices.
12 There's less items, because you use actuals, but
13 there are still items out there.

14 Q. And do you understand the company's
15 proposal is that there would not be any review
16 provided to enable Staff or to allow Staff to make
17 those proposed adjustments?

18 A. Well, we've heard various discussions over
19 the last few days on what kind of procedure there
20 might be for that. As I've heard them, that that
21 would be the intent, to be able to look at the cost
22 and make any adjustments and look at the prudence of
23 those expenditures prior to recovery of those.

24 Q. Finally, your fifth bullet point, I think
25 you talk about the company attempting to recover

0559

1 costs that should be subject to review as part of a
2 general rate case. Is this reference to the -- the
3 prudence of generating assets, for example?

4 A. There's, yes, generating assets,
5 assumptions of secondary sales and purchase prices,
6 any adjustments that might be made to wholesale
7 contracts for Staff. I think I identified an issue
8 of just what effect that the company's strategy in
9 the wholesale market affects a calculation such as
10 this. So all these I considered general rate case
11 issues.

12 Q. Could some of these issues be accommodated
13 through the review process contemplated by the
14 company?

15 A. I think a 60 to 90-day review period for
16 some of these issues is probably inappropriate.

17 Q. Your sixth bullet talks about recovering
18 the deferral costs that ultimately may not be
19 allocated to Washington ratepayers. Is that directed
20 primarily at the Gadsby and West Valley issue?

21 A. I think it encompasses two areas. One is,
22 like I mentioned before, there could be some
23 questions about various wholesale transactions that
24 were made. But, yes, I believe, in my opinion, the
25 wholesale -- the summer peaking purchases, as well as

0560

1 the cost of the West Valley and Gadsby are the
2 primary ones.

3 Q. Now, the company's testified, for Gadsby
4 and West Valley, that these plants provide system
5 benefits in that net power costs would be higher
6 without them than with them. Would you agree that
7 under the -- under the modified accord, anyway, that
8 these costs would be assignable to Washington?

9 A. No, I'm not an expert on modified accord
10 and I'm also not arguing the fact that these projects
11 may provide value on a system basis. That's not the
12 issue.

13 Q. So when you say these costs ultimately may
14 not be allocated to Washington ratepayers, you're
15 assuming adoption of a different cost allocation
16 methodology that wouldn't assign these costs to
17 Washington; correct?

18 A. Well, my testimony says these costs may not
19 be allocated to Washington. At the time the
20 testimony was written, you know, we were still trying
21 to determine whether these -- both the summer peaking
22 purchases and the West Valley and Gadsby might have
23 some benefits to the state of Washington. So my
24 testimony primarily says that they may not be
25 allocated to Washington, and that certainly would

0561

1 affect -- and if they were allocated to Washington,
2 it may not be in the manner in which the modified
3 accord allocates those expenses, or that would not be
4 our recommended methodology.

5 MR. VAN NOSTRAND: I have nothing further,
6 Your Honor. I would like to move the admission of
7 116 through 122.

8 JUDGE MOSS: All right. Being no
9 objection, those will be admitted as marked.
10 Questions from the bench.

11

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

13 BY CHAIRWOMAN SHOWALTER:

14 Q. I have some follow-up questions from your
15 cross-examination here. If you could turn to page
16 ten of your testimony, Exhibit 115?

17 A. Yes.

18 Q. It's actually the answer that starts at the
19 bottom of page nine and goes over to page ten. Is it
20 safe to say that the base power costs that the
21 company used in its 1999 rate filing were too high,
22 in your opinion?

23 A. No, I have not made any conclusions on that
24 level. Like I said in response to Mr. Van Nostrand,
25 I gave a range to those people negotiating of

0562

1 possible outcomes that you could arrive at, you know,
2 looking at -- like I said, power supply expense
3 levels is an art. There's wide variances. And so I
4 can't say one way or another.

5 Q. I don't recall if the Staff filed
6 responsive testimony --

7 A. No.

8 Q. -- in that case.

9 A. No.

10 Q. If you could turn to page three. At the
11 bottom of the page, there's -- you say, on line 19,
12 The items identified by the company causing much of
13 the anticipated increases, however, are due to normal
14 expected events, which the company should have
15 considered as part of accepting the rate plan.

16 A. Is that page three or --

17 Q. Oh, I'm sorry, it was the bottom of page
18 four. I apologize. That sentence begins at the
19 bottom of page four, line 19, and goes over to five,
20 page five.

21 Setting aside this problem of allocation,
22 do you agree that part of what has prompted the
23 company to come here is the combination of the
24 drought, power outages, and power costs that it began
25 to incur prior to the deferral period and continues

0563

1 to incur during?

2 A. Well, I -- specifically for the deferral
3 period, no, I think it's much more specific than
4 that. It's two things. One, the company testifies
5 and discusses the power crisis, and identifies in its
6 testimony only a single -- in Mr. Widmer's testimony
7 only a single expense, those summer-peaking
8 contracts, as justification, if you will, for
9 starting the deferral. And so during the deferral
10 period, there's those, there's -- and that's after,
11 although they were contracted in 2001, so I think
12 that is true lingering effects of a power crisis and
13 the concerns related to that.

14 The West Valley and the Gadsby acquisitions
15 are I don't think so much related to the power
16 crisis, but more Utah peaking requirements, and then,
17 probably more importantly, their, at least to me,
18 their mechanism, like I testified in our -- is
19 tracking every single expense item, including those
20 that at the time the rate plan was entered into were
21 known to be increasing, contractual increases in
22 long-term contracts, differences in weather that are
23 there or differences in flows that effect generation
24 level, differences in generation plant availability,
25 all these things that were known to have normal

0564

1 variations at the time the rate plan was put into
2 effect that had nothing to do with the power crisis
3 itself. Some of these were long-term contracts. So
4 their proposal is trying to get recovery of those, as
5 well.

6 Q. Well, and I think what I'm trying to gauge
7 is the interaction of things like load growth or
8 contract obligations with the power crisis. That is,
9 prior to the power crisis, it was probably reasonable
10 to arrange your life such that you would assume a
11 certain variation in wholesale power rates that was
12 within the realm of experience.

13 A. Mm-hmm.

14 Q. And had power prices stayed within that
15 realm of experience, perhaps -- it's a question I'm
16 posing, really -- the company would have adequately
17 anticipated these things you say they should have.
18 And my question is, while they should have
19 anticipated various future events, is the effect of
20 those events compounded in a big way by the power
21 crisis, which, let's assume, for the sake of this
22 question, no one could have predicted in terms of its
23 volatility and prices?

24 A. Yes, I think if you separate out items in
25 the company's proposal into two parts, you take the

0565

1 first part, which is the various detailed contracts,
2 contractual arrangements already in place, facts that
3 things -- contracts come and go, prices change, but
4 primarily known changes.

5 If you just forget about that for a minute,
6 because I don't think that was affected by the power
7 crisis, then you go to other items, such as the
8 summer-peaking contracts. I believe I agree that in
9 normal company operations, that they go out and buy
10 perhaps summer-peaking products while they're waiting
11 to acquire perhaps a resource. You match your growth
12 with the resources. So that course of business is
13 normal.

14 And yes, I think that, in a limited way,
15 particularly with those summer-peaking contracts,
16 that the price they paid for them, the amount of
17 money out of market they were or have turned out to
18 be certainly were extraordinary costs experienced by
19 the company. That, to me, is not the issue. I'm not
20 arguing that the summer-peaking contracts, even at
21 the out of market price, is imprudent. I'm not
22 arguing that West Valley and Gadsby should not have
23 been acquired. What I am arguing is I have tried to
24 look at those, for purposes in this case, of seeing
25 if there is and forgetting for a minute about the

0566

1 rate plan, forgetting about allocations, forgetting
2 about all those issues you've heard about already.
3 Just doing a reasonableness test, looking at those,
4 saying are they extraordinary costs above what could
5 have been expected at the time rates were set, and I
6 think the answer to that is a simple yes.

7 Then the next step is, Okay, given that,
8 where do those costs go. And I have tried to find
9 out from the company very specifically about what are
10 the benefits to Washington of those events, the
11 summer-peaking contracts and specifically West Valley
12 and Gadsby.

13 So as I started to explore that, again,
14 completely forgetting about allocations; just doing a
15 reasonableness test, you know, I have not been able
16 to find anything that says to me, Oh, those provide
17 benefits to Washington, and therefore that provides
18 justification for this deferral. I see document
19 after document after document referencing Utah
20 summer-peaking load, eastern control area
21 requirements. I've looked at the board meeting
22 minutes. There's line after line after line
23 discussing the Utah load, Utah bubble, local control
24 and ancillary service needs, and there's not one
25 mention of Washington.

0567

1 So I'm not denying that those costs are
2 there, I'm not denying that some of them are
3 extraordinary; it's just should they be allocated to
4 Washington.

5 Q. And well, let me skip to the first category
6 of things you mentioned. I think you -- I can't
7 rattle them off, but the --

8 A. Right.

9 Q. -- ones where you said were not affected by
10 the power crisis.

11 A. Yes.

12 Q. And I'm just wondering if that's true.
13 Doesn't a company have a portfolio, for lack of a
14 better word, of obligations and, under normal
15 circumstances, it should try to manage all of those
16 different obligations and not rely on the spot market
17 too much, that sort of thing. But in this time
18 period, both prior to the deferral period, but also,
19 I would say, during and since in the sense of the
20 after-effects, wasn't everything put to the test by
21 this combination of events, drought, power costs,
22 FERC's changing its mind, and maybe a power outage,
23 that unless a company happened to be awfully lucky
24 and be long in power and get to sell, but even then,
25 depending on how it predicted FERC would set

0568

1 wholesale power caps, even then it could make a big
2 mistake.

3 And what I'm really asking is whether
4 looking at the company as a whole, with all of its
5 obligations, you don't think that the power crisis
6 affected its overall ability to manage it. And if
7 that is the case, aren't we a part of that picture?

8 A. For this particular company, I think the
9 answer is more no than on the yes side, in my
10 opinion. Again, I'm not an expert on company
11 management of their resources, but their power supply
12 expenses that are listed in their proposal -- I'll
13 give you an example of some. Hermiston has a
14 long-term gas contract to the -- it is not affected
15 by the power supply crisis.

16 There is wholesale sales and purchase
17 contracts that run through the period, and if they're
18 not indexed, and I haven't seen very many that are, I
19 did not look in those in great detail, because I
20 consider that a rate case issue, there did not appear
21 to be any that kind of screamed out and said, Oh,
22 this is, you know, we had to do this, prices changed
23 because of the power crisis.

24 There were a few events, I think a WAPA
25 contract, I believe, that there was some arrangements

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1 made regarding that, there was the acquisition of a
2 hedge against water conditions, but on whole, if you
3 go down that list of many different purchase and
4 sales items, I think there's very little remnants of
5 the power supply in that.

6 And again, the company itself only
7 testified to the summer-peaking contracts and, to
8 somewhat lesser extent, of the Gadsby and West Valley
9 acquisition. But, again, I think that was more the
10 growth than it was power supply. So I guess I do not
11 agree that there was a large number of items,
12 particularly in the period we're talking about, that
13 were -- that we have to consider due to the power
14 crisis.

15 Q. And if you take the summer peaking
16 deficiency, is what you're saying that summer peaking
17 is Utah's problem; therefore, Utah needs to pay for
18 peaking costs, and because that is when the costs
19 were extremely high, Utah ratepayers should pay all
20 of those extraordinary costs? Is that what you're
21 saying?

22 A. Well, I hate to use the word problem. The
23 fact is is that Utah load growth occurred in the
24 summer. And I think in the various documents that we
25 have as exhibits, it also says that some of that load

0570

1 growth was unanticipated, the extent of it. And so
2 yes, I think the company looked out, saw a need to
3 cover that load growth specifically for Utah. Again,
4 nothing else was mentioned. There was no need
5 mentioned.

6 The delivery, the RFP for delivery of the
7 power was specifically into the eastern control area.
8 They were not looking for power in the western
9 control area. So without calling it a problem, it
10 was power that was acquired for Utah peaking. And
11 that, I think, is where the issue also comes into
12 effect with Gadsby and West Valley, which were
13 essentially acquired to replace or augment those
14 summer-peaking contracts. My understanding is,
15 again, you know, every single document that's --
16 particularly the board meeting minutes approving
17 that, it was delivery into Utah.

18 The justification for -- there was an
19 exhibit I think discussed either Thursday or Friday
20 that had some numbers in there. The justification
21 was for saving wheeling contract prices. It was from
22 delivery from SP15 into Mona, which is central Utah.
23 The price, without -- because it was confidential, if
24 you take a look at the price on that exhibit, plus
25 the price of wheeling, is well, well over any price

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1 that would ever be paid, I think, for power in the
2 western control area during the summer. So you can
3 only draw the conclusion that, without calling it a
4 problem, it's for Utah needs.

5 Q. Well, with respect to meeting summer power
6 obligations, how do you look at PacifiCorp's high
7 growth facilities? That is, I assume that, in
8 average years, hydro could be used to follow peak,
9 but in a deep drought year, it can't be.

10 A. Yes, it's my understanding that, even in a
11 drought year, you're energy limited, not capacity
12 limited, so the hydro system can still provide
13 peaking. It's just duration that it can is more
14 limited.

15 Q. I think what -- I'm still trying to
16 understand the relationship of the peak to the
17 drought to the prices, if any, on PacifiCorp's costs
18 during -- prior and during the deferral, prior to and
19 during the deferral period. And it would just seem
20 to me, and you should correct me, but it would just
21 seem to me that if you didn't have much water at all,
22 your ability to meet your various obligations would
23 be very limited and that -- what you're suggesting is
24 all of the difference that is the amount that
25 PacifiCorp would have to go out in the market and buy

0572

1 should be attributable to Utah only. Is that -- as
2 if they pay the incremental costs of operation in a
3 bad summer. Am I right or wrong, either as to how
4 this is actually being -- well, how you would
5 characterize it, and also your opinion?

6 A. I think what I'm trying to say is there's
7 no evidence that says that the drought or, for that
8 matter -- well, let's just stick with the drought for
9 a second. That it unduly extraordinarily affected
10 the western control area to the extent that
11 extraordinarily high costs were incurred. And that
12 may be to the credit of the company in managing its
13 western control area resources. It's also part of
14 normalized rate setting process embedded in the
15 rates, although, again, recognizing that we don't
16 have an established net power supply cost level here,
17 but in a normalized power supply setting process,
18 part of the rate that you pay has the likelihood of
19 drought and high prices in there from a overall
20 standpoint.

21 Now, if you just take a look at the actual
22 events that occurred because of the drought and then
23 you take a look at the costs that were incurred by
24 the company, there's, again, nothing in there that
25 sticks out like these summer-peaking contracts do.

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1 There's no winter-peaking contracts that were
2 acquired at out of market prices because of the
3 drought. Maybe high prices, perhaps. That probably
4 is -- was due to -- been expected at the normal rate
5 setting process. But there was nothing in the
6 evidence or in the company's presentation or anything
7 I looked at that, you know, identified anything for
8 the western control area, drought or no drought.

9 And I don't -- the company itself did not
10 specifically relate the summer-peaking contracts to
11 drought or no drought, either. It was more related
12 to the need to meet load growth, not any degradation
13 in its generation supply. It was unanticipated and
14 extraordinary growth, I think is the language that
15 was used.

16 So it was -- that just jumped out of the
17 page, which, in my mind, makes it a concern that
18 that's a Utah expense, that any kind of fair
19 allocation scheme should be allocated to Utah. Just
20 as if we had had something that occurred in the
21 wintertime that would have affected the western
22 control area, I would not expect us to be paying --
23 Utah to paying our load growth or events or something
24 like I think we earlier discussed or you had earlier
25 discussed something that might happen in the western

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1 control area that causes extraordinary events.

2 Q. Yeah, that example was a little easier,
3 though, because I think I was positing actual
4 transmission and facilities that might be disrupted
5 in our states, although I suppose you could say it's
6 all used for the whole interconnection.

7 A. Right. I equate this to be like a -- not
8 an earthquake in Utah, but some storm in Utah that
9 perhaps knocked over some poles that were in
10 Washington. And by that, I mean, you know, there may
11 be somewhere deep inside some benefits of West Valley
12 and Gadsby that may result in benefits to Washington,
13 but it would be I think fairly small. I'm not saying
14 that there is absolutely no benefit, but at least it
15 would not mean that you would allocate to Washington
16 an eight percent share of the cost of that storm that
17 knocked over two poles in Washington.

18 Q. All right. But didn't your whole answer
19 just now assume implicitly some kind of allocation or
20 a range of allocation that you consider to be fair?

21 A. I think the fairest kind of allocation --
22 well, first of all, let me back a little bit on
23 allocation principles. At least the way I was
24 taught, is you always try to directly assign things
25 first, before you allocate. So if I'm looking at a

0575

1 way to allocate cost, just like we do distribution
2 costs with this company, you can specifically
3 identify poles in the ground in Washington State and
4 anywhere else, you specifically identify those.
5 Transmission costs, power generation costs, you know,
6 overhead, A&G, you have to start considering
7 allocations.

8 So if there's an event, in my opinion, that
9 you can specifically assign, that's the basis. There
10 are situations where if you, over a long-term
11 anticipate, you know, equal likelihood of something
12 happening of some event, then you can maybe allocate
13 based on some basis that -- so there's a sharing of
14 harm or sharing of cost or whatever. But still, if
15 you can -- if there's a difference between two areas
16 and you can identify specific cost, then a principled
17 cost approach, in my opinion, is to identify those.

18 Q. All right. I had understood your testimony
19 to be that we really can't do anything in this case
20 because we haven't got a good allocation. Now I sort
21 of understand you to be saying it's actually possible
22 in this proceeding to do some kind of rough
23 allocation.

24 A. My testimony -- my prefiled testimony
25 concentrated on the company's filing, which consisted

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1 of looking at this whole mechanism which addresses
2 all these costs. And when you look at it that way, I
3 think the allocations is very important. If you were
4 to accept the company's methodology of rolling in
5 these costs, then they become very difficult without
6 some allocation mechanism.

7 The thing I've been talking to you most
8 recently about is if you just stand back and just do
9 a reasonableness test and, like I said before, just
10 totally get away from allocation issues, totally get
11 away from whether you can do something under the rate
12 plan, try to look at it from a common sense
13 standpoint and say there's these extraordinary costs
14 that the company incurred, what do we do with them.
15 And I think, in that case, you don't have to wait for
16 MSP, you don't have to go down that way; you can just
17 look at the cost, and that the preponderance of the
18 evidence suggests that those costs are not related to
19 events in Washington, even though they may be related
20 to the power crisis, which certainly occurred in
21 Washington.

22 But if the specific purchases or specific
23 acquisitions were acquired and identified to
24 specifically meet another jurisdiction's
25 requirements, then, in my mind, allocation is not an

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1 issue. You specifically assign that. And if that's
2 the case and you're looking for trying to justify a
3 deferral based on changes in cost, that takes the --
4 that portion of it out of the equation, and then
5 you're kind of left with what's left, which, in my
6 opinion, and I discussed earlier, was cost that
7 generally were normally expected to occur and really,
8 to me, aren't subject to a deferral mechanism
9 recovery based on extraordinary events. So I
10 separated the two out.

11 CHAIRWOMAN SHOWALTER: Okay. Thank you.

12 (Recess taken.)

13 JUDGE MOSS: Let's be back on the record.

14

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

16 BY JUDGE MOSS:

17 Q. I have a quick follow-up question to
18 Chairwoman's last question, Mr. Buckley, and I wanted
19 to just interject that before we continue. Just, if
20 I may, the gist of a lot of your testimony this
21 afternoon has been to the effect, if I've captured it
22 correctly, that much of the power cost as to which
23 the company's seeking deferral in this proceeding,
24 deferred accounting treatment, is in your view
25 attributed to expected events, things that the

0578

1 company should reasonably have anticipated at the
2 time of the rate plan?

3 A. I think the number of items, yes, but the
4 dollar amount is probably relatively small compared
5 to the extraordinary events.

6 Q. But what I'm trying to get to is this. For
7 example, the company might have known at the time it
8 entered into the rate plan that a certain power
9 contract was going to expire during the rate plan
10 period, and so is that something they should
11 reasonably have anticipated occurring?

12 A. Yes.

13 Q. Now, the question, though, is while they
14 might have anticipated that event, they might have
15 also reasonably expected to have replaced that
16 contract at, say, \$30 a megawatt hour with power at
17 \$35 a megawatt hour, but would not necessarily have
18 anticipated having to replace that contract at \$300
19 a megawatt hour?

20 A. That's true, but I don't believe, in the
21 company's case, that there was expiration of
22 wholesale contracts that resulted in that big a
23 difference.

24 Q. You anticipated my next question, of
25 whether you found any evidence that there were

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1 occasions of these --

2 A. No.

3 Q. -- reasonably anticipatable events, but
4 which had some consequences or are unanticipated
5 factors that came into play?

6 A. No.

7 JUDGE MOSS: Okay. I believe Commissioner

8 --

9

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

11 BY COMMISSIONER HEMSTAD:

12 Q. I have just one question. It is the same
13 kind of question I asked Mr. Elgin. Considering the
14 company's overall circumstances in -- call it now the
15 post-Western power crisis environment and this
16 continuing festering issue of allocation, wouldn't
17 you think there would be any public interest need to
18 simply terminate the rate plan and order the company
19 to file a rate case?

20 A. I don't think there is in Washington, not
21 based on the projections that I've seen in the 2003
22 to 2006 power supply cost. It appeared to me, based
23 on the company's testimony, that most of what were
24 identified as the causes of those costs were those
25 anticipated items.

0580

1 Q. Well, is that based on the idea that
2 everything considered, to use perhaps the wrong
3 phrase, a deal's a deal, or that even without the
4 rate plan, that the company's circumstances wouldn't
5 make a rate case urgent?

6 A. No, in my opinion, I think it's based on
7 the fact that the power crisis, the big one, is past,
8 there are some systemic lingering effects in that, I
9 think primarily related to perhaps variability in
10 secondary prices that may be exhibited more than in
11 the past, but I don't think that the items that have
12 been identified by the company as being the greatest
13 cause of their system power supply increases are
14 those that would result in a need for a general rate
15 case in Washington.

16 COMMISSIONER HEMSTAD: That's all I have.

17 COMMISSIONER OSHIE: I don't have anything
18 for the witness.

19 JUDGE MOSS: All right. Then, following
20 our usual format, did you have any follow-up before
21 we ask Mr. Cedarbaum about redirect?

22 MR. VAN NOSTRAND: Just a couple, Your
23 Honor.

24

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

0581

1 BY MR. VAN NOSTRAND:

2 Q. Mr. Buckley, I wanted to follow-up on a few
3 questions from Chairwoman Showalter. You indicated
4 that you wanted to totally get away from the
5 allocation issue, just forget about allocations, I
6 think you said, and instead apply a reasonableness
7 test and -- which looks at benefits to Washington and
8 should these costs be allocated to Washington.

9 Isn't it fair to say that you're not really
10 getting away from the allocations issue; you're just
11 choosing to apply an allocation test, which defines
12 allocations according to whether or not there are
13 benefits to Washington?

14 A. No, no, not at all. I think I'm being
15 principled. If there was expenses that were
16 identified to the -- large enough to the extent that
17 they would, in my opinion, have justified some
18 recommendation regarding a deferral as it relates to
19 Washington customers, I think I would have
20 entertained that, that -- when I said I got away from
21 the allocation problem, it was -- and the rate plan
22 problem, it was more -- allocation issues are issues
23 across the board on all expense items, rate base,
24 everything, and what I meant was I just tried to take
25 a very simplistic approach in looking at, you know,

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1 obviously extraordinary costs, above what would have
2 been expected, identifying those, and then seeing if
3 there was anything that, in my opinion, should be
4 reasonably assigned or allocated.

5 Because if there had been some event or
6 some cost that the company had demonstrated obvious
7 benefits to Washington customers, then there should
8 have been some assignment/allocation of that to
9 Washington, and I did not find any of that.

10 Q. But just as -- there could be another
11 allocation method that says that as long as the
12 company shows a benefit to the system, that
13 Washington will pay its share of the system cost
14 without regard to a showing of benefits particular to
15 Washington, isn't there?

16 A. There could be one, and I think that,
17 originally, when the companies merged, that was the
18 basis for the original discussions. And the
19 reasoning behind that was you assumed that the
20 entities or the jurisdiction had similar load growth
21 shape characteristics of their load, primarily, that
22 caused cost to incur. You also assumed, or at least
23 I have in the past in other multi-jurisdiction
24 companies, you assumed reasonably similar regulatory
25 bodies and treatments.

0583

1 And under those conditions, then you could
2 adopt an allocation scheme that -- you know, fair
3 play or fair play says that everybody shares in
4 everybody else's cost. But as you get away from
5 that, you have either changes in regulatory
6 environment or you have changes in load
7 characteristics or both, then you have to start, I
8 think, digressing from that idea of everybody shares,
9 basically, on some load growth principle or
10 combination principle. And I think that -- this is
11 what's happened with this company, in my opinion.

12 Q. We're essentially talking about two
13 different allocation methods, one that looks to
14 direct benefits attributable to one particular state
15 versus assigning all states a proportion of
16 systemwide resources. It's two allocation
17 approaches, isn't it?

18 A. One is automatic and the other one looks at
19 the specifics. If there had been a resource that had
20 -- that exhibited benefits that was acquired in the
21 Wasatch front range and could be determined that it
22 provided, you know, a -- some share of benefits to
23 another jurisdiction, then that jurisdiction, you
24 know, should pick up those costs. It's that
25 determination.

0584

1 The other way to do it is to develop an
2 allocation scheme which just presumes that the one
3 jurisdiction pays the cost, and that jurisdiction
4 also gets all the benefits from, and that includes
5 things like transfer pricing on extra sales. That's
6 another one they could do.

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

9 JUDGE MOSS: Okay. Redirect.

10 MR. CEDARBAUM: Just a few questions.

11

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

13 BY MR. CEDARBAUM:

14 Q. Mr. Buckley, you indicated that you had
15 been looking at information the company provided with
16 respect to the Gadsby and West Valley peaker
17 projects. Do you recall that?

18 A. Yes.

19 Q. And you hadn't found anything that would
20 demonstrate to you that either of those projects
21 benefit Washington?

22 A. Yes.

23 Q. Just referring you to Exhibit 80, which was
24 the company's response to Staff Data Request 53?

25 A. Go ahead.

0585

1 Q. Is this one of the documents that you were
2 referring to?

3 A. That one, I do not have up here, Mr.
4 Cedarbaum.

5 MR. VAN NOSTRAND: Want me to give it to
6 him?

7 MR. CEDARBAUM: Sure. Thank you.

8 Q. My question is is this one of the documents
9 that -- one of the company documents that you
10 reviewed with respect to Gadsby and West Valley?

11 A. Yes, this is.

12 Q. Is there anything on this document that
13 would indicate that the costs, with respect to those
14 projects, were incurred to serve Washington?

15 A. No, what this -- what it does do is it --

16 Q. And as you answer, keep in mind this is a
17 confidential document.

18 A. Yes, yes. To me, if you look at the cost
19 of the replacement energy plus the cost of the
20 wheeling, it brings into question the -- whether this
21 project does indeed provide benefits to Washington,
22 such as suggested by the last page. Without getting
23 into the numbers, when you add the average cost of
24 the replaced generation with the average cost of the
25 wheeling rate, you get a pretty high number that, in

0586

1 my opinion, is not something that, I think like I
2 said earlier, that Washington customers would be
3 expected to pay for any kind of summer generation.

4 In addition to that, this is also what I
5 earlier testified to as one of the items on here
6 related to transmission savings relates to the
7 savings of transmission wheeling dollars from
8 southern California into central Utah.

9 Q. Referring you to Exhibit 86, which was the
10 company's response to Staff Data Request Number 91,
11 you indicated that you had reviewed the board of
12 directors minutes with respect, again, to Gadsby and
13 West Valley. Are these the minutes that you did
14 review?

15 A. Yes, they are.

16 Q. So when you said that you went through a
17 document and you saw references to Utah loads, but no
18 references to Washington loads, this is the document
19 -- one of the documents you were referencing?

20 A. Yes, it is.

21 Q. Exhibit 87 was a data request in which
22 Staff asked Mr. Widmer to provide all studies,
23 analyses and documents for each of the benefits
24 specifically to Washington customers that he
25 testified to in his rebuttal testimony.

0587

1 Is there anything in the company's response
2 to this document that would substantiate his
3 testimony with respect to benefits in Washington?

4 A. No, I don't believe so. The -- no, I don't
5 believe so.

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

8 JUDGE MOSS: All right. That would appear
9 to complete our examination of this witness. Yes?

10 MR. VAN NOSTRAND: Nothing at this time.

11 JUDGE MOSS: Okay, very good. Mr. Buckley,
12 we thank you for your testimony, and you may step
13 down.

14 MR. CEDARBAUM: Your Honor, while we're
15 switching witnesses, Exhibit 111 is being held in
16 abeyance.

17 JUDGE MOSS: Yes, it is.

18 MR. CEDARBAUM: I was going to ask if I
19 could ask Mr. Martin a couple of additional direct
20 questions on this exhibit. That way, Mr. Van
21 Nostrand will hear his testimony and can
22 cross-examine him on it and we can deal with this
23 exhibit as appropriate.

24 JUDGE MOSS: That seems like a reasonable
25 way to proceed. That may establish our foundation.

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1 Whereupon,

2 ROLAND C. MARTIN,

3 having been first duly sworn by Judge Moss, was

4 called as a witness herein and was examined and

5 testified as follows:

6 JUDGE MOSS: Please be seated.

7 THE WITNESS: Thank you.

8

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

10 BY MR. CEDARBAUM:

11 Q. Mr. Martin, if you could please turn to
12 what's been marked for identification as Exhibit 125.

13 A. Yes.

14 Q. Do you have that? Does that constitute
15 your direct testimony in this proceeding?

16 A. Yes, it does.

17 Q. And are Exhibits 126 and 127 accompanying
18 exhibits that you prepared for your direct testimony?

19 A. Yes.

20 Q. If I were to ask you the questions in
21 Exhibit 125, would your answers be the same?

22 A. Yes.

23 Q. And are Exhibits 126 and 127 true and
24 correct, to the best of your knowledge and belief?

25 A. Yes.

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1 MR. CEDARBAUM: Your Honor, at this time I
2 would offer Exhibits 125, 126 and 127.

3 JUDGE MOSS: And there being no objection,
4 those will be admitted as marked.

5 Q. Mr. Martin, I wanted to ask you a couple of
6 questions about Exhibit 111 for identification. Do
7 you have that in front of you?

8 A. Yes, I have it now.

9 Q. Can you just briefly describe, first of
10 all, what this exhibit pertains to, in terms of the
11 application that the company made in Docket
12 UE-000969?

13 A. As stated in the memo, it's a filing by the
14 company seeking authority to capitalize and amortize
15 the cost of an early retirement program and a
16 severance program. And the significant features of
17 this filing is that the costs that are being
18 requested to be deferred will be amortized during the
19 rate plan period. And if I refer you to the second
20 page, there were discussions in the company and
21 Staff, and there was agreement, particularly Item B
22 in the middle paragraph, that the deferral account
23 will be an Account 186, miscellaneous deferred
24 debits, and that the deferred debit will be amortized
25 to Account 930.2, miscellaneous general expenses,

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1 over a period ending by the termination of the rate
2 plan established in Docket Number UE-991832, with the
3 tax benefits to follow the expense.

4 And finally, the last item, the cost of the
5 earlier retirement and severance programs announced
6 during 2000 will not be included in rates for any
7 years after 2005, which is the end of the rate plan
8 period. So in essence, there's no rate impact of
9 this or bill impact of this filing.

10 Q. The question came up this morning as to
11 whether or not the Staff position in that docket
12 that's included -- that's described in Exhibit 111 is
13 consistent or not with the rate plan stipulation in
14 Section 9 dealing with deferred accounting.

15 My question is can you please explain
16 whether the Exhibit 111 is consistent or not with
17 Section 9?

18 A. If I could see Section 9. I forgot the
19 specifics. This is, I believe, consistent with
20 Section 9, because it states that the company shall
21 ensure that items currently treated as regulatory
22 assets under authorizations from other states are
23 proposed for inclusion in Washington at the end of
24 the rate plan period are supported by necessary
25 accounting authorizations in Washington, so I think

0591

1 this is the effort of the company to comply with
2 that.

3 MR. CEDARBAUM: Thank you, Mr. Martin.
4 Those complete my questions on Exhibit 111.

5 JUDGE MOSS: Okay. Do you want to turn
6 specifically to this and resolve this? Do you have
7 any questions after hearing the foundation, or shall
8 we just go ahead and finish up ruling on this?

9 MS. FISHER: Well, are you proposing to
10 allow it to be admitted?

11 MR. CEDARBAUM: I have no objection to the
12 exhibit at this time.

13 JUDGE MOSS: Staff's withdrawing its
14 objection.

15 MS. FISHER: I might have some follow-up
16 questions on it later.

17 JUDGE MOSS: Are you withdrawing your
18 objection, now that you understand the document?

19 MS. DAVISON: I am, Your Honor.

20 JUDGE MOSS: Okay. Well, then, there being
21 no further objection to the admission of 111, which
22 was previously moved, it will be admitted as marked.

23 MR. CEDARBAUM: I believe the witness is
24 now available for cross-examination on his entire
25 testimony.

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1 JUDGE MOSS: All right. Well, I believe it
2 looks like Ms. Fisher is going to examine this
3 witness.

4 MS. FISHER: That's correct.

5

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

7 BY MS. FISHER:

8 Q. Good afternoon, Mr. Martin.

9 A. Good afternoon, Counsel.

10 Q. In your testimony, you state that the
11 company's 1999 rate case was settled before any
12 determination was made regarding the modified accord
13 allocation method; correct?

14 A. That's correct.

15 Q. And Staff never made a determination that
16 the modified accord allocation method should or
17 should not be used in that case; is that right?

18 A. I would say it's part of the general rate
19 case to review allocation practices, but like I said,
20 we didn't conclude that rate case and it was settled,
21 so there was no determination that modified accord is
22 the appropriate method to use.

23 Q. Right. In fact, you state in Exhibit 125,
24 on page seven, that Staff neither -- never supported
25 or opposed the modified accord method; is that

0593

1 correct?

2 A. Yes.

3 Q. During the 1999 rate case, did Staff have
4 an ample opportunity to review the modified accord?

5 A. I cannot absolutely answer that, because
6 during the pendency of the rate case I was not able
7 to participate in the continuation of the
8 investigation. So I believe the length of time of
9 the suspension period would have enough time to make
10 an evaluation.

11 Q. Is it fair to say that, even though Staff
12 may not have supported or opposed modified accord,
13 that it considered modified accord as a possible
14 allocation method when it agreed to the stipulation
15 and rate plan?

16 A. I don't believe so, because I remember the
17 last meeting of the PITA, the company itself was
18 proposing to amend modified accord. And after the
19 dissolution of PITA, that is, the company not
20 convening the group, they come out with another
21 proposal, which is the SRP, and they come out with a
22 different allocation method, which was earlier
23 described as the first year method. So I don't think
24 modified accord was a possible candidate.

25 Q. Do I understand your testimony today to be

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1 that the Commission should reject this filing in this
2 case because Staff has not supported modified accord
3 allocation methodology?

4 A. I think I stated in the first pages of my
5 testimony that the modified accord allocation method
6 contains inherent flaws, such as allocating
7 disproportionate share of the costs of new generation
8 to states like Washington with load growth that does
9 not require resourcing, so --

10 CHAIRWOMAN SHOWALTER: Excuse me. If
11 you're reading, please slow down.

12 THE WITNESS: Okay. I'll go to, Therefore,
13 Staff recommends that the Commission reject any
14 Washington results of operations portrayals and
15 analysis that are based on the modified accord.
16 That's found on page three.

17 Q. So in other words, this application should
18 be rejected because modified accord hasn't been
19 accepted?

20 A. I'm saying that the financial support
21 that's been submitted by the company to justify their
22 request for deferral should not be relied on because
23 they were based on a flawed allocation scheme.

24 Q. Are you aware that the company periodically
25 files Washington results of operations with the

0595

1 Commission?

2 A. Yes, it's required by the Commission rules.

3 Q. And to your knowledge, those results have
4 not been rejected by the Commission; isn't that
5 correct?

6 A. Not rejected for reporting purposes,
7 because otherwise the company would have nothing to
8 report if --

9 Q. All right. And do you accept, subject to
10 check, that the Washington results of operations are
11 based on the modified accord methodology?

12 A. Yes, they are.

13 Q. To your knowledge, did Staff ever reject a
14 company filing as being out of compliance due to the
15 failure to reflect an approved cost allocation
16 methodology?

17 A. In what sense?

18 Q. Regarding the results of operations?

19 A. Could you please restate the question?

20 Q. Sure. Did Staff ever reject the results of
21 operations for being out of compliance due to the
22 failure to reflect an approved cost allocation
23 methodology?

24 A. I don't remember formally informing the
25 company that their modified accord should be

0596

1 rejected.

2 Q. Okay. Do you recall being asked in a
3 PacifiCorp data request -- and this is on Exhibit
4 128. Do you recall being asked whether Staff has
5 taken a position with respect to the company's
6 results of operations that the results should be
7 rejected if they are based on modified accord?

8 A. For ratemaking purposes.

9 Q. And your response to that request was no;
10 is that correct?

11 A. No, because I clarify that the Staff
12 testimony filed on lines six to eight of the
13 referenced page, which is page three, there's a
14 premise, a recorded recommendation, that the
15 testimony states that the modified accord allocation
16 also has not previously been accepted by the
17 Commission, nor by Staff for ratemaking purposes.

18 Q. But you haven't -- this data request asks
19 you whether you've taken a similar position with
20 respect to Washington results of operations. And are
21 you saying that your answer should now be yes, or is
22 it still no?

23 A. Well, for ratemaking purposes, we are
24 recommending that the Commission not accept it, so
25 for reporting purposes, the company can still file in

0597

1 order to comply with the requirements of the rules,
2 because they don't comply, they'll be in violation of
3 the rules. And regardless of what methodology
4 they're going to use, then I guess that's in
5 compliance with what the rules are requiring.

6 Q. So the Washington results of operations
7 have been complying with -- the filings that the
8 company's made has been in compliance with the
9 Washington Commission's rules?

10 A. As far as the requirement to submit results
11 of operations, yes.

12 Q. So in other words, even though the company
13 proposed using modified accord in the 1999 rate case
14 and has used the modified accord allocation
15 methodology in its submissions for the Washington
16 results of operations before this Commission, this is
17 the first case that Staff recommends outright
18 rejecting the Washington results of operations and
19 analysis that are based on modified accord; is that
20 correct?

21 A. Yes, because this is first filing that
22 we're addressing allocation.

23 Q. On page eight of your testimony, lines 16
24 to 18 states that the revenue requirement increases
25 were not based on modified accord to calculate

0598

1 Washington's rate base, operating expenses or net
2 operating income.

3 Do you recall being asked in a PacifiCorp
4 data request for the basis on which these
5 calculations were performed?

6 A. Yes, and I believe I replied that they were
7 the result of the rate plan as discussed by Staff
8 witness, Mr. Elgin.

9 Q. And this is -- are you referring to Exhibit
10 129?

11 A. His testimony.

12 Q. Okay. Well, let me refer you to Exhibit
13 129, which is the Data Request Number 145 -- 1.45.
14 And your supplemental response to that request says,
15 Please see supplemental response to Company Data
16 Request 1.8. Do you see that?

17 CHAIRWOMAN SHOWALTER: I was just going to
18 ask Ms. Fisher if you can just articulate a little
19 better?

20 MS. FISHER: Oh, sure. I'm sorry.

21 CHAIRWOMAN SHOWALTER: Thank you.

22 MS. FISHER: Yeah.

23 THE WITNESS: I'm looking at Exhibit 129,
24 and it refers to supplemental response of Company
25 Data Request Number 1.8.

0599

1 Q. Right. And that's been marked as Exhibit
2 35 in this case?

3 A. Exhibit -- pardon me?

4 Q. Thirty-five.

5 A. Yes, I have it. I have Exhibit 35.

6 Q. Thank you. Looking at the fourth paragraph
7 on page three of this exhibit that's part of the
8 introduction to the response to your supplemental
9 response, it says, It is fair to say that Staff
10 considered the magnitude of revenue increase
11 requested by the company in the resulting rate
12 impacts which could possibly result from an
13 allocation method other than modified accord, as well
14 as the use of other elements that affect the
15 determination of revenue requirements in its
16 evaluation of the rate plan.

17 So Staff considered the use of allocation
18 methods other than modified accord in the 1999 rate
19 case?

20 A. What this is saying is that there may be
21 other allocation methods that can produce the same
22 result. It's not only modified accord. So that's
23 why it's stated it could possibly result.

24 Q. And ultimately, Staff concluded that it
25 should support the stipulation and rate plan;

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1 correct?

2 A. Which one would support? Which specific
3 aspect are you referring to?

4 Q. Overall, the Commission Staff supported the
5 1999 stipulation and rate plan for the 1999 rate
6 case?

7 A. Absolutely, because Staff is a signatory to
8 the stipulation.

9 Q. So even in the absence of an approved
10 allocation method, you were able to determine that
11 the rate plan would produce fair, just, reasonable
12 and sufficient rates; is that correct?

13 MR. CEDARBAUM: Your Honor, I'll object at
14 this point. This is duplicative of questions and
15 answers we've heard from Mr. Elgin, and I think we're
16 just going over the same ground.

17 JUDGE MOSS: And I think it does sort of
18 stand on its own merits. The Staff did support the
19 stipulation. A necessary finding to that, as Staff
20 well understands, is that the rates be fair, just,
21 reasonable and sufficient, so I think we have
22 adequate record on this point. So why don't you move
23 to another one.

24 MS. FISHER: That's fine.

25 Q. Have you suggested any other allocation

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1 methods that could be used in this proceeding?

2 A. Have I -- pardon me?

3 Q. Have you suggested any other allocation
4 methods that could be used in this proceeding?

5 A. It's not actually a suggestion, but I
6 mention in my testimony, towards the end, that
7 knowing that there's a multi-state process going on,
8 Staff is considering the control area approach as
9 being potentially acceptable method of allocation.

10 Q. The Idaho approach?

11 A. It's been called Idaho, Hybrid Study, 447,
12 there's so many names.

13 Q. Okay.

14 A. And there's so many versions of that.

15 Q. Do you recall being asked in a PacifiCorp
16 data request for other portrayals of results of
17 operations that could be used? And that's at Exhibit
18 130. And have you seen that -- this is a Data
19 Request 1.46, and it says that you were the
20 responder, so have you had an opportunity to look at
21 this document?

22 A. Yes, I actually prepared this document, and
23 I'd like to -- just like how I responded to question
24 number -- question letter A, the testimony supports
25 the concept that the results of operations in

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1 Washington are inherently influenced by the chosen
2 allocation method. So if we look at the examples
3 that were introduced yesterday, I believe it's
4 Exhibit 28-C and Exhibit 29. So depending on what
5 kind of allocation you want to choose, you'll see
6 different results.

7 Q. My question is when we -- when the company,
8 in its data request, asked you, Are there other
9 portrayals that should be included, other than
10 modified accord, your response did not provide any
11 other alternative allocation methods; is that
12 correct?

13 A. Not to specifically recommend one that's
14 been fully developed, knowing that, like I've said,
15 there's a potential method that's still being
16 deliberated on, discussed on, and it's not in its
17 final stage yet.

18 Q. And so the Staff is participating in the
19 multi-state process; is that right?

20 A. We are participating. Is that your
21 question?

22 Q. Yes.

23 A. Yes, we're participants.

24 Q. And the allocation method that you've just
25 been referring to as potentially acceptable allocates

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1 costs according to control areas; is that right?

2 A. Yeah, I think the main appeal, in general
3 terms, is that there is a direct assignment of
4 resources, like the new resources that's been built
5 to meet Utah's peak load, Gadsby and West Valley,
6 since they are located in the east control area.
7 Then, by default, they're going to be all its cost,
8 and operation and maintenance expenses will be
9 assigned to that control area.

10 And other appeal is that the west control
11 area is basically hydro, hydro-based. Then, by
12 default again, those resources will be located in the
13 west control area.

14 Q. And is this the same allocation method that
15 you referred to in response to Data Request 1.47,
16 which is Exhibit 131?

17 A. Yes.

18 Q. And so according to your response to this
19 data request, this allocation method would be a more
20 equitable allocation plan, according to Staff?

21 A. That's a term used by the company to
22 describe it, but our recommendation that that's a
23 question about -- let me just read what's the data
24 request to be able to put the response in proper
25 context.

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1 The request is what is the Staff's
2 recommended course of action for reasonably
3 determining Washington's cost until such time as a
4 more equitable allocation plan can be agreed upon and
5 approved by the Commission.

6 And my response was, The Staff recommended
7 course of action is to follow the rate plan. The
8 rate plan specifically provides that the company is
9 required to file no later than July 1st, 2005, and
10 justify its rates. It is expected that the filing in
11 that proceeding will include an equitable cost
12 allocation methodology for Washington. So there is
13 an assumption that, by then, the MSP would have been
14 concluded.

15 Q. And on your testimony, page 14, which is
16 Exhibit 125, you stated that before Washington's
17 costs can reasonably -- can be reasonably determined,
18 a more equitable allocation plan must be agreed upon
19 by PacifiCorp states. And this data request, Exhibit
20 131, asked you for a description of a more equitable
21 allocation plan, and your response referred to the
22 Idaho approach; is that correct?

23 A. It's like I have mentioned earlier. The
24 control area approach has potential acceptability to
25 Washington.

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1 Q. Okay. Also in your testimony, you
2 identified some so-called flaws of the modified
3 accord methodology. And these so-called flaws were
4 not newly discovered as -- upon the filing of this
5 case; is that correct?

6 A. I mentioned three flaws, I believe, and the
7 major one is the assignment of cost due to uneven
8 growth in the customers or consumption. So that's
9 one major shortcoming of the modified accord. The
10 other two are in regards to special contracts and
11 taxes.

12 Q. All of those were preexisting before the
13 filing of this case?

14 A. I wouldn't say that the flaw regarding the
15 growth were preexisting, because it might be
16 preexisting, but it didn't become pronounced until
17 the descriptions and all those studies, documents
18 that Mr. Buckley referred to. Those were not
19 available before.

20 Q. And your Exhibit 126 compares the 1989
21 values to 2001 values; is that correct?

22 A. Yes.

23 Q. And so Washington's load has grown since
24 1989; is that right?

25 A. Yes.

0606

1 Q. And looking at Exhibit 9 in this case,
2 which is the exhibit attached to Jeff Larsen's
3 testimony, his rebuttal testimony, Mr. Larsen
4 compared the percentage growth rates from 1989, not
5 just for 2001, but for each year in between; is that
6 correct?

7 A. Yes, he did.

8 Q. Do you agree, subject to check, that
9 Washington's loads have grown faster than the
10 company's system average?

11 A. Not totally.

12 Q. Could you -- I didn't hear you.

13 A. Not entirely.

14 Q. Not entirely. Well, over the years,
15 comparing the first column with the last column in
16 this exhibit, it appears that -- do you agree that
17 Washington load growth is contributing to the
18 company's total system needs?

19 A. Yes.

20 Q. And at a faster pace than the company's
21 total system?

22 A. That the -- yes, but the total system, as
23 you can see, is being affected by the lower growth in
24 other states, but if we see or look at Utah, that
25 there's consistency in the growth. Not only the

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1 growth, but the size of the load that's growing.

2 Q. And also, looking at -- if we could compare
3 -- let's just take the year 2000 as an example.
4 Comparing Washington with Oregon, California or
5 Wyoming, those percentage increases, Washington is
6 growing at a faster pace than those states; is that
7 correct?

8 A. For those three jurisdictions, but I'd like
9 to point out that we can describe the entire picture
10 that Washington actually went down from 2000 to 2001.

11 Q. So --

12 A. While Utah went up from 2000 to 2001.

13 Q. So overall, slower growing states are
14 subsidizing Washington's load growth; correct?

15 A. Not necessarily.

16 Q. You stated in your testimony that the key
17 flaw of the modified accord allocation methodology is
18 that it fails to recognize costs caused by
19 consistently disparate load growth in jurisdictions
20 in which PacifiCorp operates. Is that a fair
21 statement of what you said in your testimony?

22 A. Can you please refer me to the exact
23 location?

24 Q. Page eight.

25 A. Yes.

0608

1 Q. And the modified accord allocation method
2 has not changed between the 1999 rate case and this
3 proceeding; is that correct?

4 A. As far as the principles and the mechanics
5 and the mathematics, I think there was no change.

6 Q. Your second concern about the use of
7 modified accord relates to systemwide allocation of
8 special contracts; correct?

9 A. Yes.

10 Q. In fact, Mr. McDougal testified that all
11 special contracts have been allocated to their home
12 states. In other words, they've been state assigned;
13 is that correct?

14 A. Yes, because, based on the response to a
15 data request or based on some document provided by
16 the company, they indicated that they changed
17 policies in the year 2000, that they will no longer
18 enter into special contracts.

19 Q. And also on page -- in Exhibit 8 on page
20 15, which is Mr. Larsen's rebuttal testimony, doesn't
21 he again reiterate that all the cost and revenues for
22 all special contracts were assigned to their home
23 states for this proceeding?

24 A. At the time of the preparation of my
25 testimony, but I believe there's another special

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1 contract that came out recently, the Monsanto in
2 Idaho, where the desires of the company was not
3 followed by what was ordered by the Commission. I
4 believe the company was asking for a standard tariff,
5 whereas the Idaho final order stated that it's going
6 to be nonstandard tariff. And in addition, pending
7 MSP, the final order stated that the special contract
8 will be allocated systemwide.

9 Q. But for purposes of this proceeding, do you
10 have any reason to dispute Mr. Larsen or Mr.
11 McDougal's testimony that this is not an issue
12 because the results in this case, as presented, have
13 been adjusted to exclude the impact of special
14 contracts?

15 A. I'm stating it as a matter of principle.

16 Q. So in other words, in this case, it's
17 really not an issue because they have been assigned
18 to their states?

19 A. I think it's still an issue, because I
20 mentioned that the principles of modified accord
21 didn't change, and the modified accord provides that
22 all non-tariff contracts entered into by the company
23 after January 1997 will be allocated systemwide.

24 So to the extent that the company changed
25 its policy in year 2000, which I didn't know, I

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1 didn't realize until I found out from the data
2 request, I think there's still that flaw about the
3 allocation of special contract.

4 Q. Your third concern relates to the
5 allocation of taxes; is that correct?

6 A. That's correct.

7 Q. And are you aware that Washington has a
8 public utility tax?

9 A. Yes, I am.

10 Q. Under modified accord, this tax is
11 allocated on a systemwide basis; correct?

12 A. Yes, under a system overhead allocation
13 factor.

14 Q. And do you have any reason to dispute Mr.
15 Larsen's rebuttal testimony on page 16, which is
16 Exhibit 8, that, for fiscal year ended March 31,
17 2002, the company paid \$6.7 million in public utility
18 tax to Washington, which has been allocated to all
19 jurisdictions?

20 A. I don't have reason to dispute that.

21 Q. If this amount was not allocated on a
22 systemwide basis, then the full amount would be
23 included in Washington results of operations;
24 correct?

25 A. The full amount of the utility tax will be

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1 included in Washington and at the same time that
2 state income taxes will be taken out from Washington
3 operations.

4 Q. And because these public utility taxes are
5 allocated systemwide, Washington receives a benefit,
6 doesn't it?

7 A. On a net basis, yes, but, then, again, I
8 made this description based on principle.

9 Q. I don't have -- okay. Returning to Exhibit
10 111, which you were asked questions about a moment
11 ago -- and while we're at it, why don't we look at
12 Exhibit 2, which is the rate plan stipulation.

13 You stated earlier that this -- the
14 application in Docket UE-000969 was in an effort for
15 the company to be allowed to recover these costs
16 during the rate plan period to defer and amortize
17 these costs during the rate plan period; is that
18 correct?

19 A. I didn't say recovered. I said it's going
20 to be amortized during the rate plan period and
21 there's no bill or rate impact.

22 Q. Okay. And was this document -- was this
23 application to be proposed for inclusion in rates?

24 A. The rates under the rate plan were
25 programmed, so I don't suppose that these are going

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1 to be added to those rates.

2 Q. How does this application in Docket
3 UE-000969 implicate the second sentence in the second
4 paragraph of Section 9 of the rate plan stipulation?

5 A. What was the question, again, please?

6 Q. How does the application in Docket
7 UE-000969 implicate the second sentence -- how is it
8 implicated in the second sentence of the second
9 paragraph under the stipulation, which is Section 9,
10 which appears on page seven of the stipulation?

11 A. I think I stated earlier that they are
12 consistent, that this application is not in -- does
13 not contradict this provision of Section 9.

14 Q. Right, but I understood your testimony
15 earlier to say that this application fell within the
16 second sentence of the second paragraph of the
17 stipulation, Section 9. So my question is how does
18 that application implicate that second sentence?

19 A. I guess I'm having trouble in trying to
20 understand the word implicate.

21 Q. Well, given that the costs would be
22 amortized during the rate plan period in this
23 deferred accounting application in Docket Number
24 000969, how does that implicate the second sentence
25 of the second paragraph, which states that rates --

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1 or authorizations that are proposed for inclusion in
2 Washington at the end of the rate plan period?

3 A. This application is not trying to propose
4 to include in rates at the end of the rate plan
5 period, so that's why I said there's no contradiction
6 between this provision and this filing, because this
7 expires at the end of the rate plan period, while new
8 rates are going to be examined or supported by the
9 company whether they are still fair, just and
10 reasonable. So I think they are exclusive.

11 MS. FISHER: I have nothing further at this
12 time, but I would like to move for the admission of
13 Exhibits 128, 130 and 131. And 129 has been already
14 admitted as Exhibit 42, so they're the same document.

15 JUDGE MOSS: All right. Well, there's no
16 need to have duplicate exhibits. Since 129 is in as
17 42, we'll simply eliminate it from the offer, and
18 hearing no objection, 128, 130 and 131 will be
19 admitted. Questions from the bench?

20

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

22 BY CHAIRWOMAN SHOWALTER:

23 Q. I'd like to just follow up on your last
24 line of questioning there that discusses Exhibit 111
25 in relationship to Section 9 of the stipulation

0614

1 agreement.

2 Were you saying that because Exhibit 111
3 does not propose to include amounts that translate
4 into rates at the end of the rate plan period, that
5 therefore Exhibit 111 is consistent with that
6 sentence?

7 A. Yes, at least it's not contradictory.

8 Q. All right. Then, also, by the same token,
9 then, if there were regulatory assets -- if a
10 regulatory asset was not under authorization from
11 another state, it also would be consistent with this
12 sentence, because this sentence seems to relate to
13 items currently treated as regulatory assets under
14 authorizations from other states that are then
15 proposed to be included at the end of our rate plan
16 in our state; is that correct?

17 A. I think the portion that says they are
18 being treated as regulatory assets in other states
19 and so there should be the same authorization in
20 Washington. But since other states do not have the
21 same rate plan, they'll make a significant difference
22 when comparing with other states.

23 Q. Okay. And also, in section -- excuse me,
24 Exhibit 111, about the fourth paragraph down -- or
25 it's the third paragraph, under discussion, the last

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1 sentence says, Washington's allocation is
2 approximately 8.7 percent, or \$15 million. How was
3 Washington's allocation determined there?

4 A. It's most probably using the modified
5 accord.

6 CHAIRWOMAN SHOWALTER: No further
7 questions.

8 COMMISSIONER HEMSTAD: I don't have any
9 questions.

10 COMMISSIONER OSHIE: I have no questions of
11 the witness.

12 JUDGE MOSS: Nor have I. Did that prompt
13 anything?

14 MS. FISHER: No.

15 JUDGE MOSS: Redirect.

16 MR. CEDARBAUM: Thank you.

17

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

19 BY MR. CEDARBAUM:

20 Q. Mr. Martin, picking up on Exhibit 111 and
21 Section 9, it's the Staff's testimony it's a matter
22 of interpretation of the stipulation that the phrase
23 "in this regard" in the paragraph in Section 9 that
24 we've been discussing involves regulatory assets that
25 were on the company's books in other states at the

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1 time the stipulation was entered into; is that your
2 understanding?

3 A. Yes.

4 Q. Now, the stipulation that's shown in
5 Exhibit Number 2 is dated June 16th. Do you see
6 that? 2000. If you look at any number of the
7 signature pages, you'll see that date.

8 A. Yes, it's dated June 16th, 2000.

9 Q. And the application the company made,
10 that's represented by Exhibit Number 111, was made
11 seven days later, on June 23rd, 2000; is that right?

12 A. What was that June 23rd date?

13 Q. If you look at Exhibit Number 111, the
14 first sentence of the discussion?

15 A. Yes.

16 Q. And Exhibit 111 refers to regulatory assets
17 that were on the books of the company in other
18 states; is that right?

19 A. Yes.

20 Q. Presumably, and I'm sure it's a matter of
21 public record, but the Commission's approval of the
22 stipulation would have been by order sometime after
23 June 23rd, 2000; is that right?

24 A. This was brought before the Commission on
25 August 30, 2000, so the order might have been issued

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1 during that date.

2 Q. Again, that's a matter that we can all
3 refer to in the order itself. Referring you to your
4 exhibit -- actually, I think you were asked questions
5 instead by Ms. Fisher about -- sorry. It was Mr.
6 Larsen's JKL-7, which I'm having trouble -- here it
7 is, Exhibit 9. Do you have that?

8 A. Yes.

9 Q. And you were also asked questions about
10 your Exhibit 126, kind of on the same subject matter.
11 If you look at page one of three, in the percent
12 change portion of the exhibit in the Wyoming column,
13 there are lots of negative numbers. Can you explain,
14 if you know, what caused that to occur?

15 MS. FISHER: Objection. This exhibit is a
16 company exhibit and these numbers are related to the
17 company. This is not the appropriate witness to ask
18 questions about what is the basis for these numbers.

19 JUDGE MOSS: Ms. Fisher, you inquired of
20 this witness about this exhibit, so I think it's fair
21 game.

22 MS. FISHER: Okay.

23 THE WITNESS: It's my understanding that
24 there were a decrease in loads in that territory
25 during this period.

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1 Q. Was that related to large industrial
2 customers, just a lot of residential people fleeing
3 the state or what, do you know?

4 A. I'm trying to remember. It's got something
5 to do with fossil fuel or drilling or something, but
6 I'm not really sure.

7 Q. I don't want you to speculate. Finally,
8 you were asked questions about the company's periodic
9 filings with the Commission and the Staff's analysis
10 of those. In your opinion, does the fact that this
11 company is operating on a -- under a rate plan have
12 an impact on the Staff's use or lack of use of those
13 periodic filings?

14 A. Yes.

15 Q. Can you please explain that in more detail?
16 And if you could, while you're doing that, perhaps
17 refer to Exhibit 34.

18 A. Yeah, I believe I mentioned earlier that if
19 your starting point is flawed from the beginning,
20 then the rest of the examination is flawed. So based
21 on that logic, the review of these Commission based
22 results of operations are accorded differently --
23 accorded treatment considered -- compared with other
24 submissions by other utilities.

25 Q. And if a company, under a rate plan --

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1 would there have been any reason for Staff to have
2 rejected or propose that the Commission reject or
3 penalize the company with respect to these periodic
4 filings given Staff's use of those filings of this
5 company under a rate plan?

6 A. Could you please restate your question?

7 Q. You'd indicated that the Staff, because of
8 this company operating under a rate plan, looks at
9 the periodic reports differently than companies that
10 are not operating under a rate plan. Would that
11 difference have prompted Staff to recommend that the
12 company's filing be rejected or that the company be
13 penalized for some reason?

14 A. I think there is a basis to do that, but we
15 haven't done so.

16 Q. Was it Staff's -- is it Staff's position
17 that the company file those reports out of compliance
18 with the specific items that the reports require?

19 A. Ideally speaking, all the provisions of the
20 WAC rules should be adhered to, but like I said, we
21 don't have any alternative allocation method that's
22 being filed or authorized, and the only way to
23 strictly comply is to look at the general rate case
24 way back in U-8602. But, then again, it's going to
25 be difficult to make it this reference point, because

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1 at the time there was no merger between Utah and
2 PacifiCorp.

3 Q. Is the 1986 rate case that you referenced
4 U-8602, was it?

5 A. Yes.

6 Q. Was that the last prior rate case prior to
7 the 1999 rate case that we've been talking about in
8 this case?

9 A. That's correct.

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

12 JUDGE MOSS: Well, are we, through dint of
13 hard effort, going to finish early? It appears that
14 we are. Mr. Martin, thank you very much for your
15 testimony. We can let you step down.

16 THE WITNESS: You're welcome.

17 JUDGE MOSS: Are there any other matters
18 that we need to take up to complete our record? We
19 have previously scheduled briefs for April 9th, and
20 hearing no suggestion that we change that, we'll
21 stick to that schedule. Our transcripts should be
22 ready prior to that time, so the parties will be able
23 to make full reference in their briefs.

24 If there's nothing further, I thank all of
25 the counsel and the parties for their participation

0621

1 and their highly professional conduct throughout the
2 course of our proceedings and the usual good showing
3 by all concerned, and we'll be off the record. Thank
4 you.

5 (Proceedings adjourned at 4:32 p.m.)

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