

BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)
Complainant,) Docket No. UE-152253
v.)
PACIFIC POWER & LIGHT COMPANY,)
Respondent.)

EVIDENTIARY HEARING, VOLUME V

Pages 131 - 416

ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

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EVIDENTIARY HEARING
VOLUME V: INDEX

WITNESSES: PAGE

R. BRYCE DALLEY 142

Examination by:

Ms. McDowell 143

Mr. Beattie 144

Mr. Fitch 152

Mr. Cowell 174

Ms. McDowell 192

Commissioner Rendahl 195

Chairman Danner 199

Commissioner Rendahl 208

Commissioner Jones 209

Chairman Danner 219

Commissioner Jones 222

Commissioner Rendahl 229

Ms. McDowell 234

DAVID C. PARCELL & KURT STRUNK 237

Examination by:

Ms. Cameron-Rulkowski (Parcell) 239

Ms. McDowell (Strunk) 244

Commissioner Jones 243

RICHARD A. VAIL 284

Examination by:

Mr. Lowney 285

Ms. Cameron-Rulkowski 286

WITNESSES (Continued): PAGE

ELIZABETH O'CONNELL 365

Examination by:

Ms. Cameron-Rulkowski 366

Mr. Lowney 367

Mr. Cowell 371

Ms. Cameron-Rulkowski 375

DONNA M. RAMAS 376

Examination by:

Commissioner Jones 377

Mr. Fitch 384

BRADLEY G. MULLINS 385

Examination by:

Mr. Cowell 385

Mr. Lowney 386

Mr. Cowell 409

Chairman Danner 411

Commissioner Jones 412

EXHIBITS:

All exhibits offered were admitted 14

* * * * *

WITNESSES (Continued): PAGE

SHELLEY MCCOY 290

Examination by:

Ms. Rackner 290

Ms. Cameron-Rulkowski 292

Mr. Cowell 301

Chairman Danner 308

Commissioner Rendahl 309

JOELLE STEWARD 312

Examination by:

Ms. Rackner 313

Mr. Cowell 314

Mr. Purdy 318

Ms. Rackner 324

Chairman Danner 325

Commissioner Rendahl 326

JASON BALL 331

Examination by:

Ms. Cameron-Rulkowski 331

Ms. Rackner 334

Mr. Cowell 347

Ms. Cameron-Rulkowski 353

Commissioner Rendahl 354

JOANNA HUANG 358

Examination by:

Mr. Beattie 359

Mr. Cowell 360

Commissioner Jones 364

OLYMPIA, WASHINGTON; MAY 2, 2016

9:33 A.M.

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JUDGE FRIEDLANDER: We'll go on the record.

My name is Marguerite Friedlander. I'm an administrative law judge with the Washington Utilities and Transportation Commission.

We're here for an evidentiary hearing in Docket UE-152253, the two-year rate plan increase requested by Pacific Power & Light Company.

I'm going to start out by taking appearances, address the admission of exhibits, and then deal with any procedural issues before I go get the commissioners.

So let's begin with appearances, starting with Ms. McDowell.

MS. MCDOWELL: Thank you, Judge Friedlander, and good morning. This is Katherine McDowell appearing on behalf of Pacific Power. With me today is Adam Lowney, sitting at counsel table, and my partner, Lisa Rackner, who will be appearing also.

JUDGE FRIEDLANDER: And for the court reporter's benefit, do you need them to spell their last names?

Page 139

1 THE REPORTER: No.
 2 JUDGE FRIEDLANDER: Okay. Thank you.
 3 MS. MCDOWELL: Thank you.
 4 JUDGE FRIEDLANDER: Appearing today on
 5 behalf of Staff?
 6 MS. CAMERON-RULKOWSKI: On behalf of Staff,
 7 Jennifer Cameron-Rulkowski, Assistant Attorney General.
 8 And with me is Julian Beattie, and also with me is
 9 Patrick Oshie and also Christopher Casey.
 10 JUDGE FRIEDLANDER: Thank you. Appearing
 11 today on behalf of Public Counsel?
 12 MR. FFITCH: Good morning, your Honor.
 13 Thank you. Simon ffitich with the Office of Public
 14 Counsel, the Washington State Attorney General's Office.
 15 JUDGE FRIEDLANDER: Thank you. Appearing
 16 today on behalf of the Energy Project?
 17 MR. PURDY: Good morning. This is Brad
 18 Purdy appearing on behalf of the Energy Project.
 19 JUDGE FRIEDLANDER: Thank you. Appearing
 20 today on behalf of Boise White Paper?
 21 MR. COWELL: Appearing on behalf of Boise
 22 White Paper, your Honor, Jesse Cowell.
 23 MR. PURDY: I'm not sure we have a good --
 24 MR. COWELL: Sorry. Again, for the record,
 25 good morning. Appearing on behalf of Boise White Paper,

Page 140

1 Jesse Cowell.
 2 JUDGE FRIEDLANDER: Thank you. And
 3 appearing today on behalf of the Sierra Club?
 4 MR. RITCHIE: Your Honor, Travis Ritchie on
 5 behalf of the Sierra Club.
 6 JUDGE FRIEDLANDER: Thank you. Is there
 7 anyone representing the Northwest Energy Coalition?
 8 MS. GERLITZ: We don't have legal counsel
 9 here today, no.
 10 JUDGE FRIEDLANDER: Okay.
 11 MS. GERLITZ: I'm Wendy Gerlitz.
 12 JUDGE FRIEDLANDER: Okay. Thank you.
 13 MS. GERLITZ: Okay.
 14 JUDGE FRIEDLANDER: Can you come up and
 15 spell your last name?
 16 MS. GERLITZ: Oh, sure.
 17 JUDGE FRIEDLANDER: Thanks.
 18 MS. GERLITZ: Wendy Gerlitz, G-E-R-L-I-T-Z.
 19 JUDGE FRIEDLANDER: Thank you. So I think
 20 we've heard from the parties.
 21 Is there anyone on the conference bridge who
 22 wishes to make an appearance?
 23 Hearing nothing, it's my understanding that
 24 the parties wish to admit all exhibits that are
 25 pre-filed, including cross-exam exhibits; is that

Page 141

1 correct?
 2 MS. CAMERON-RULKOWSKI: That's correct,
 3 your Honor.
 4 JUDGE FRIEDLANDER: Thank you.
 5 MS. MCDOWELL: This is Katherine McDowell
 6 for Pacific Power. We also agree with that stipulation,
 7 which we were able to resolve over the weekend.
 8 JUDGE FRIEDLANDER: Thank you.
 9 (All proposed exhibits admitted.)
 10 JUDGE FRIEDLANDER: Are there any procedural
 11 matters that need to be addressed before we begin the
 12 hearing? Okay.
 13 MS. CAMERON-RULKOWSKI: Your Honor, one
 14 question.
 15 JUDGE FRIEDLANDER: Sure.
 16 MS. CAMERON-RULKOWSKI: Did you want a
 17 shorter form of direct examination when we introduce our
 18 witnesses and tender them for cross?
 19 JUDGE FRIEDLANDER: I was just about to get
 20 to that, but thank you. That was a good segue.
 21 So I do want the parties who are sponsoring
 22 the testimony to lay the foundation for each of the
 23 witnesses after I swear them in, and then we'll begin --
 24 we'll get into cross-examination and possible
 25 clarification questions from the bench.

Page 142

1 So are there any other procedural issues
 2 before I bring in the commissioners?
 3 MS. MCDOWELL: Your Honor, Katherine
 4 McDowell again. Are you -- in terms of the order of the
 5 cross-examination, will you just go over across the
 6 column, Staff --
 7 JUDGE FRIEDLANDER: Yes. Yes.
 8 MS. MCDOWELL: Okay. Great.
 9 JUDGE FRIEDLANDER: We'll start with
 10 Mr. Dalley and then -- is it "Daley" or "Dalley"?
 11 MS. MCDOWELL: Dalley.
 12 JUDGE FRIEDLANDER: We'll start with
 13 Mr. Dalley and go right across the board, Staff, Public
 14 Counsel and Boise.
 15 MS. MCDOWELL: Thank you.
 16 JUDGE FRIEDLANDER: You're welcome. All
 17 right. If there's nothing else, I'll go get the
 18 commissioners. Thank you.
 19 Mr. Dalley, if you would remain standing.
 20 Raise your right hand.
 21
 22 R. BRYCE DALLEY, witness herein, having been
 23 first duly sworn on oath,
 24 was examined and testified
 25 as follows:

Page 143

EXAMINATION BY MS. MCDOWELL / DALLEY

1
2 JUDGE FRIEDLANDER: Thank you. Please be
3 seated.
4 Ms. McDowell.
5 MS. MCDOWELL: Thank you, Judge Friedlander,
6 and good morning, commissioners.
7 *** EXAMINATION BY MS. MCDOWELL ***
8 BY MS. MCDOWELL:
9 **Q. Mr. Dalley, how are you employed?**
10 A. I'm Vice President of Regulation for
11 Pacific Power.
12 **Q. And in that capacity, have you prepared exhibits**
13 **and testimony for the proceeding today?**
14 A. I have.
15 **Q. And for the record, are those exhibits and**
16 **testimony RBD-1T through RBD-4?**
17 A. That is correct, yes.
18 **Q. Mr. Dalley, do you have any changes or**
19 **corrections to your pre-filed testimony or exhibits?**
20 A. I do. I have one correction.
21 **Q. Is that to your direct testimony or your**
22 **rebuttal testimony, Mr. Dalley?**
23 A. Rebuttal testimony that's identified as Exhibit
24 RBD-3T.
25 **Q. Can you identify the correction or change that**

Page 144

EXAMINATION BY MR. BEATTIE / DALLEY

1 **you have, Mr. Dalley?**
2 A. Yes. It's on page 25 of that exhibit, RBD-3T,
3 line 8, should be corrected. The word "retirement" --
4 it says "post-retirement benefits." The word
5 "retirement" should be replaced with "employment." So
6 it should read "post-employment benefits."
7 **Q. Thank you, Mr. Dalley.**
8 Do you have any other changes or corrections to
9 your pre-filed testimony?
10 A. I do not.
11 **Q. If I were to ask you the questions set forth in**
12 **your pre-filed testimony today, would your answers be**
13 **the same?**
14 A. Yes, they would.
15 MS. MCDOWELL: Mr. Dalley is available for
16 cross-examination, Judge.
17 JUDGE FRIEDLANDER: Thank you.
18 Ms. Cameron-Rulkowski? Or Mr. Beattie.
19 Thank you.
20 MR. BEATTIE: Thank you, Judge Friedlander.
21 *** EXAMINATION BY MR. BEATTIE ***
22 BY MR. BEATTIE:
23 **Q. Good morning, Mr. Dalley.**
24 A. Good morning.
25 **Q. My name is Julian Beattie. I'm with the**

Page 145

EXAMINATION BY MR. BEATTIE / DALLEY

1 **Attorney General's Office representing Commission Staff.**
2 **Thank you for being here this morning.**
3 **I'd like to talk about accelerated depreciation.**
4 **Are you familiar with the testimony of Joanna**
5 **Huang that was filed in this docket?**
6 A. Yes, I am.
7 **Q. Then you know that Commission Staff has a**
8 **concern about whether the evidentiary record is**
9 **sufficient to support the Company's proposal in this**
10 **matter, right?**
11 A. Yes. It's my understanding that Staff's
12 position is that there's not a depreciation study.
13 **Q. Well, this morning I'd just like to find out if**
14 **you can help me figure out whether there is a sufficient**
15 **evidentiary basis for the Company's proposal.**
16 **Okay?**
17 A. Okay.
18 **Q. So you have testified that Pacific Power's**
19 **proposal is a policy-based response to new laws and**
20 **regulations that may shorten the useful lives of coal**
21 **plants, correct?**
22 A. That is correct.
23 **Q. So it must be the Company's position that the**
24 **Commission may establish new depreciation rates for**
25 **policy reasons only; is that correct?**

Page 146

EXAMINATION BY MR. BEATTIE / DALLEY

1 **A. Not necessarily only for policy reasons, but**
2 **that is certainly a consideration for the Commission**
3 **when establishing depreciation rates.**
4 **Q. Did the Company provide any non-policy reasons**
5 **for its proposal in this case?**
6 A. No, it did not. As part of this case, we have
7 not submitted a new engineering or technical study
8 associated with the facilities at our Jim Bridger plant
9 or our Colstrip plant, but we have proposed to modify
10 those lives to address the emerging environmental
11 policies that exist here in Washington and federally.
12 **Q. The currently-approved depreciation rates are**
13 **based on a study, correct?**
14 A. Yes, they are. The rates that are currently in
15 effect were approved by the Commission as part of our
16 '13 -- it was actually our 2012 depreciation study, but
17 it was approved in 2013.
18 **Q. So to confirm, the Company's position is that**
19 **the Commission can depart from those study-based**
20 **depreciation rates for policy reasons, correct?**
21 A. Yes. The Commission can reset and adjust
22 depreciation rates in any proceeding, and we've proposed
23 that the time is right in this proceeding for the
24 Commission to do so based on the policy -- environmental
25 policy, I guess, framework for conditions that exist

Page 147

EXAMINATION BY MR. BEATTIE / DALLEY

1 today, yes.

2 **Q. Thank you. One of the rationales provided by**

3 **the Company for accelerated depreciation in this case is**

4 **that doing so will align the depreciation rates with**

5 **those currently approved in Oregon; is that correct?**

6 A. Yes.

7 **Q. I'd like to probe the alignment rationale for a**

8 **few minutes.**

9 **Adopting Oregon's depreciable lives will not**

10 **actually align the rates. Do you understand?**

11 A. Yes, I follow. I mean, I could --

12 **Q. And that's because, even if we were to set the**

13 **end life at the same end point, we have a lot of**

14 **catching up to do in Washington because Oregon has**

15 **already been operating on these shortened lives; isn't**

16 **that right?**

17 A. That is correct.

18 **Q. So we're not really aligning with Oregon except**

19 **for the very last day when we finally catch up under the**

20 **Company's proposal?**

21 A. We are aligning the useful lives of the

22 facilities between Washington and Oregon, so that's the

23 alignment I'm describing.

24 **Q. Isn't it true that aligning with Oregon means**

25 **falling out of alignment with the other states in which**

Page 148

EXAMINATION BY MR. BEATTIE / DALLEY

1 **the Company operates?**

2 A. Yes, it would. Our other states are using the

3 depreciation lives that are currently approved here in

4 Washington. So it would deviate from those other

5 states, but would align with Oregon that has a shorter

6 life for those facilities.

7 **Q. So what have we accomplished if we fall out of**

8 **alignment with Utah, Idaho, Wyoming and California?**

9 A. Well, I think we've -- we'll have made

10 significant progress here for our Washington customers

11 in that we will be minimizing the future rate impacts

12 associated with, potentially, acceleration of

13 depreciation rates in the future.

14 And so by addressing this issue now and

15 accelerating those lives to a shorter life today, we

16 could do so at a modest impact to customer rates. If we

17 wait and adjust those rates at a future date, the impact

18 to customers could be much greater, and that's what

19 we're trying to address here by aligning the lives now.

20 **Q. But true or false, aligning rates with those in**

21 **Oregon has no impact on, say, how the Utah Commission**

22 **treats the operating life and the depreciable lives of**

23 **these plants?**

24 A. That is correct. Each Commission has

25 jurisdiction over the depreciation rates that are used

Page 149

EXAMINATION BY MR. BEATTIE / DALLEY

1 in that state.

2 **Q. So Mr. Dalley, your assumption -- your big**

3 **assumption, I'll say, is that Colstrip 4 and Jim**

4 **Bridger, the plants that we're talking about, will, in**

5 **fact, undergo early retirement?**

6 A. That's not my testimony. My testimony is that,

7 with the existing and emerging environmental policies

8 here in Washington and federally, the risk associated

9 with early retirement is greater than what we had when

10 we established those rates in 2013. And by acting now,

11 the Commission and the Company can position our

12 customers for a future where it does not have as

13 significant of impacts to our customers to adjust those

14 rates.

15 **Q. I understand your rationale. What would you say**

16 **is the probability that either of these plants will**

17 **actually go out of service earlier than their**

18 **currently-approved depreciable lives?**

19 A. I think it's difficult to determine, but I would

20 say, based on the political environment, and as well as

21 the policies, it's more likely than not that the useful

22 lives would be shortened rather than -- to even maintain

23 their existing ones, or be lengthened.

24 **Q. And that's just your hunch, correct?**

25 A. There's -- there's no specific requirement, no,

Page 150

EXAMINATION BY MR. BEATTIE / DALLEY

1 to shut down these facilities on those dates, but our

2 proposal here is one to mitigate risk for customers in

3 the future.

4 **Q. Okay. So the answer, again, is you're just**

5 **speculating?**

6 A. We're -- I guess we're trying to adapt and make

7 sure that we could position customers and the Company

8 for a future where we don't have to have those dramatic

9 increases, but there is no specific shutdown date

10 identified at this time for those facilities.

11 **Q. And when you say there is no specific shutdown**

12 **date, you mean the Company has not committed to a**

13 **specific shutdown date for either of these facilities?**

14 A. That is correct.

15 **Q. How do we know that the Company will not simply**

16 **continue to invest in these facilities beyond what you**

17 **are currently advocating as their depreciable lives?**

18 A. Each of the investments the Company makes at its

19 facilities will be reviewed by the Commission for

20 prudence, and they will be also be evaluated based on

21 the economic conditions that exist when those investment

22 decision are made. And so the Commission would have

23 full transparency and record for those decisions should

24 they be made.

25 **Q. Do you think that the Company's inability to**

EXAMINATION BY MR. BEATTIE / DALLEY

EXAMINATION BY MR. FFITCH / DALLEY

1 **commit to a specific shutdown date for either of these**
2 **facilities undermines the flexibility rationale offered**
3 **by the Company for this proposal?**

1 **A. Subject to check, yes. I don't have that figure**
2 **right in front of me, but that sounds about right.**

4 A. No, I do not. I believe this is a -- the ripe
5 opportunity to adjust these rates. We could do it at a
6 modest increase to customer rates, and I think it
7 provides significant risk mitigation for customers in
8 the future, so I think it's an ample time to do this.

3 **Q. And so for year one, the impacts of accelerating**
4 **the depreciation on Jim Bridger and Colstrip actually**
5 **exceeds the amount of the increase that you're**
6 **requesting in the first year of your two-year rate plan**
7 **proposal?**

9 **Q. Those modest increases, they are still very**
10 **real, however?**

8 A. That is correct. With the other elements of the
9 test period considered, that is certainly true.

11 A. Certainly. Every increase that we have impacts
12 our customers. I was just in Yakima and Walla Walla
13 last week at public comment hearings and heard our
14 customers articulate concerns over upward pressure on
15 rates, but I also heard customers say that they would
16 prefer to have modest or smaller increases this year and
17 next year rather than a big increase in 2018.

10 **Q. Now, we just heard a response to questions from**
11 **Staff that the current depreciation rates were put in**
12 **place in 2013, so they've been in place for just a**
13 **little over two years; is that right?**

18 And so although each of those increases has an
19 impact on our customers, I think that they would prefer
20 them to be modest and predictable.

14 A. Yes, that's correct.

21 MR. BEATTIE: All right. That's all the
22 questions I have. Thank you very much.

15 **Q. And during the intervening period, PacifiCorp**
16 **had a rate case before this Commission for Washington**
17 **rates, did it not?**

23 THE WITNESS: Thank you.

18 A. Yes, it did, in 2014.

24 JUDGE FRIEDLANDER: Thank you, Mr. Beattie.
25 And thank you for the correction on your name as well.

19 **Q. And in your rebuttal testimony, you indicate**
20 **that the filing provides the Company needed cost**
21 **recovery, enabling investments necessary to provide safe**
22 **and reliable utility service.**

23 **Is that your testimony?**

24 A. Yes.

25 **Q. Have you identified any specific safety and**

EXAMINATION BY MR. FFITCH / DALLEY

EXAMINATION BY MR. FFITCH / DALLEY

1 I apologize for the mispronunciation.

1 **reliability investments in evidence in this case that**
2 **PacifiCorp has been unable to make as a result of the**
3 **current coal plant depreciation rates?**

2 I believe Mr. ffitich.

3 MR. FFITCH: Thank you, your Honor. Good
4 morning, commissioners.

4 A. Can you rephrase or ask me that again? I'm not
5 sure I tracked right the last piece of that question.

5 *** EXAMINATION BY MR. FFITCH ***

6 BY MR. FFITCH:

6 **Q. I'll restate the question.**

7 **Q. Good morning, Mr. Dalley. Simon ffitich for the**
8 **Public Counsel office.**

7 A. Thank you.

9 MR. FFITCH: A number of the topics that we had
10 intended to cover were covered by Staff, so I apologize
11 to the bench. I may be a little bit stop-start here as
12 I try to edit on the fly.

8 **Q. Have you identified any specific safety and**
9 **reliability investments in evidence in this case that**
10 **PacifiCorp has been unable to make as a result of the**
11 **current coal plant depreciation rates?**

13 JUDGE FRIEDLANDER: Thank you.

12 A. Well, we have certainly identified safety and
13 reliability investments that are necessary, and they are
14 part of this case. Two of those that I would mention
15 are upgrade to the Union Gap substation, just outside of
16 Yakima, which is needed for reliability. And as far as
17 safety and reliability, our EMS, or Emergency Management
18 System, has also been proposed as part of this rate
19 case. So those are two investments that are necessary
20 for those items you mentioned, safety and reliability.

14 BY MR. FFITCH:

15 **Q. Just to get one thing, I think, clear on the**
16 **dollars here, Mr. Dalley, in the rebuttal presentation,**
17 **the Company is now requesting a somewhat reduced**
18 **increase for the first year of approximately \$9 million,**
19 **correct?**

21 **Q. In the 2014 rate case that you mentioned, that**
22 **was -- that took place subsequent to the adoption of the**
23 **current depreciation rates, did PacifiCorp take the**
24 **position that those depreciation rates prevented the**
25 **Company from making investments necessary to provide**

20 A. That is correct.

21 **Q. And am I correct in the Company's rebuttal case**
22 **that the revised adjustments for accelerated**
23 **depreciation on Jim Bridger and Colstrip has an impact**
24 **on revenue requirement of approximately 10.1 million,**
25 **correct?**

Page 155

EXAMINATION BY MR. FFITCH / DALLEY

1 safe and reliable service?

2 A. No, it did not.

3 **Q. Is it your position that if the Company is not**

4 **allowed to accelerate the recovery of Jim Bridger and**

5 **Colstrip plant depreciation in this case, the Company**

6 **will not make investments that are needed to provide**

7 **safe and reliable utility service?**

8 A. No, that's not my testimony. I think you have

9 to look at the test period kind of in totality, all of

10 the elements. And here, in this case, we have some

11 significant capital investments that are necessary to

12 maintain the system and keep our system safe, but

13 there's also a proposal to accelerate depreciation.

14 Those components together comprehensively equate to the

15 rate increases that we're proposing as part of this

16 case.

17 So in the first year, as revised in our rebuttal

18 testimony, 2.69 percent, and in the second year,

19 2.99 percent. But a significant element of that

20 increase is associated with accelerated depreciation of

21 our coal facilities. And because of that kind of modest

22 impact to customer rates, with all of those things

23 considered, we think it is the right time to make that

24 adjustment on accelerated depreciation.

25 **Q. All right. Can you please turn to what's been**

Page 156

EXAMINATION BY MR. FFITCH / DALLEY

1 marked as Cross-Exhibit RBD-8CX.

2 **Do you have that?**

3 A. Yes, I do.

4 **Q. And would you agree that that is testimony filed**

5 **by or on behalf of PacifiCorp by Mr. Henry Lay in the**

6 **2013 depreciation docket?**

7 A. Yes, it is.

8 **Q. And if you look at the testimony on the page,**

9 **Mr. Lay provides a definition of depreciation and**

10 **generally explains the concept of depreciation, correct?**

11 A. Which page was that?

12 **Q. Page 4. I apologize. I hadn't yet directed you**

13 **to the page. So if you could please turn to page 4.**

14 MS. MCDOWELL: Mr. ffitich, is that page 4 of

15 the exhibit or page 4 of the testimony?

16 MR. FFITCH: Let's use the exhibit page.

17 It's page 5 of the exhibit.

18 MS. MCDOWELL: Thank you.

19 BY MR. FFITCH:

20 **Q. Is it correct, Mr. Dalley, that starting at**

21 **page -- starting -- pardon me -- starting at line 14,**

22 **Mr. Lay restates the definition of depreciation**

23 **accounting from the American Institute of CPA's as**

24 **follows: Depreciation accounting is a system of**

25 **accounting which aims to distribute the cost or other**

Page 157

EXAMINATION BY MR. FFITCH / DALLEY

1 basic value of tangible capital assets, less salvage (if

2 any), over the estimated useful life of the unit (which

3 may be a group of assets) in a systematic and rational

4 manner.

5 **That's the definition he provides, correct?**

6 A. Yes, it is.

7 **Q. And then later at -- immediately following that,**

8 **at lines 20 and 21, he states that "The actual payment**

9 **for an electric utility plant asset occurs in the period**

10 **in which it is acquired through purchase or**

11 **construction," correct?**

12 A. Yes, that's what it says.

13 **Q. Now, if you would, can I get you to turn to**

14 **Cross-Exhibit RBD-7?**

15 A. I'm there.

16 **Q. Do you have that?**

17 A. Yes.

18 **Q. And those are general instructions from FERC for**

19 **the uniform system of accounts specifically regarding**

20 **depreciation, correct?**

21 A. That is correct. In preparing -- once I

22 received this cross-exhibit -- this is an excerpt from a

23 rather voluminous CFR, or Code of Federal Regulations,

24 but yes, the page 3 of that exhibit is -- describes

25 depreciation accounting.

Page 158

EXAMINATION BY MR. FFITCH / DALLEY

1 Q. Yes. Thank you. You're correct, it is an

2 excerpt.

3 So if you could turn to page 3. You've

4 anticipated my direction there. Page 3 is really the

5 substance of the exhibit. If you could look at

6 Section A there, Section A describes the method of

7 depreciation accounting and states, "Utilities must use

8 a method of depreciation that allocates in a systematic

9 and rational manner the service value of depreciable

10 property over the service life of the property,"

11 correct?

12 A. Yes.

13 **Q. And do you agree with that?**

14 A. Yes.

15 **Q. Is PacifiCorp's proposed accelerated**

16 **depreciation of the Jim Bridger coal plant assets based**

17 **on the Company's current best estimate of the service**

18 **life of the property?**

19 A. Yes. Our proposal considers a number of

20 different factors, and it kind of -- maybe point to part

21 B of that where it talks about service lives. It says,

22 "The estimated useful service lives of depreciable

23 property must be supported by engineering, economic or

24 other depreciation studies."

25 And so when we're talking about service life,

EXAMINATION BY MR. FFITCH / DALLEY

EXAMINATION BY MR. FFITCH / DALLEY

1 it's important to note that operational life and
2 economic life could be two different things. And the
3 Commission has flexibility to determine which lives it
4 will use in setting depreciation rates and customer
5 rates.

1 that should be considered when establishing
2 depreciation. And it says, and I quote, "Among the
3 causes to be given consideration are wear and tear,
4 decay, actions of the elements, inadequacy,
5 obsolescence, changes in the art, changes in demand, and
6 requirements of public authorities."

7 And our proposal here is not one that looks at
8 how long a particular facility such as Jim Bridger or
9 Colstrip will last. It's not an evaluation or an
10 engineering study of how long that actual equipment will
11 last. But rather it's a proposal to adjust the useful
12 service life from an economic basis to be able to adapt
13 to the future to address existing and emerging
14 environmental policies.

7 I think that the latter part of that quote
8 describes the flexibility that the Commission has in
9 determining depreciation in that it doesn't have to be
10 solely based on an engineering or operational life of an
11 asset, but it could be based on other policy
12 considerations, which is what the Company's proposal
13 here in this case is.

14 **Q. Thank you. And just to be sure that I have your
15 answer, you're stating that the Company's current best
16 estimate of the service life of the Jim Bridger coal
17 plant assets is the year 2025; is that your testimony?**

14 JUDGE FRIEDLANDER: And if I can break in
15 for just a moment, we don't have the full CFR in the
16 record. So I'm going to take administrative notice of
17 it.

18 A. Yes. Our testimony is that 2025 is a more
19 accurate reflection of the economic service life of the
20 facility, and would be more appropriate to be included
21 in customer rates for those risk mitigation factors I
22 mentioned.

18 You were referring to which part of the CFR?

23 **Q. And if I ask you the same question with regard
24 to Colstrip, it would be your testimony that the best
25 estimate of the service life of Colstrip would be the**

19 THE WITNESS: Yes, Judge. It's the
20 Definitions sections. The title is Uniform System of
21 Accounts Prescribed for Public Utilities and Licensees
22 Subject to the Provisions of the Federal Power Act, and
23 it's under the Definitions section, and the reference I
24 just quoted was item 12, Depreciation.

25 JUDGE FRIEDLANDER: Thank you.

EXAMINATION BY MR. FFITCH / DALLEY
1 **year 2032?**

EXAMINATION BY MR. FFITCH / DALLEY

2 A. Yes. A better estimate anyway, and one that
3 could also be reevaluated by the Commission in a future
4 proceeding. The Commission's decision in this case
5 would not lock in that life permanently; it would --
6 could be reevaluated based on economic and other policy
7 considerations in the future.

1 MR. FFITCH: Thank you, your Honor. We're
2 fine with that -- inclusion of that in the record.

8 **Q. All right. Let's look at subpart B of this
9 definition, which is titled "Service lives." And that
10 states that the "Estimated useful service lives of
11 depreciable property must be supported by engineering,
12 economic, or other depreciation studies," correct?**

3 BY MR. FFITCH:

13 A. Yes.

4 **Q. Just following on with talking about subpart B,
5 Mr. Dalley, as we've just read, the explanation states
6 that the useful service lives must be supported by
7 engineering, economic or other depreciation studies.**

14 **Q. And do you agree with that?**

8 **Have you or has PacifiCorp in this case
9 presented any engineering, economic or other
10 depreciation studies that demonstrate or result in a
11 service life for the Jim Bridger units that would end in
12 2025?**

15 A. I do.

13 A. We have not performed an engineering or
14 economic -- or engineering or depreciation study
15 associated with these facilities, as I've mentioned in
16 some of the questions with you, Mr. ffitch, and from
17 Staff.

16 **Q. All right.**

18 But what we have presented is a request to the
19 Commission to adjust those rates based on emerging
20 policy considerations, which, under the CFR, are
21 perfectly permissible [sic] and allowed by our state
22 utility commissions.

17 A. Maybe another just point, in this same
18 voluminous document, it has a Definition section in that
19 Code of Federal Regulations. It's a few pages before,
20 if you have the actual hard copy book. In that
21 Definition section, under item 11 -- or excuse me --
22 item 12, it describes depreciation and considerations or
23 factors that should be considered when determining
24 depreciation.

23 **Q. And you have not presented any such studies for
24 the Colstrip 4 unit indicating a service life ending in
25 2032 either, have you, or has Pacific Power?**

25 In that section it goes through a list of items

Page 163

EXAMINATION BY MR. FFITCH / DALLEY

1 **A. No. There's no depreciation study as part of**
 2 **this case.**

3 **Q. When will your next depreciation study be filed**
 4 **in Washington?**

5 A. We typically file them every five years, and our
 6 last depreciation study was effective January of 2014,
 7 filed in -- I think it was a 2012 study approved in
 8 2013. So to get to your question, five years from that
 9 point would be the 2018 timeframe, potentially, for
 10 depreciation rates effective in 2019.

11 **Q. The Company has some discretion about when to**
 12 **file its next depreciation study, does it not?**

13 A. Certainly.

14 **Q. So if -- so you can file a new depreciation**
 15 **study sooner than your current plan if situations arise**
 16 **that would warrant a new study being filed earlier,**
 17 **correct?**

18 A. We could, but I would note that, even if we
 19 filed a depreciation study tomorrow, the conclusion
 20 that would -- would not change, in that a depreciation
 21 study looks at a number of factors, including, as you've
 22 mentioned, Mr. ffitich, engineering and other analysis of
 23 facilities.

24 But there's also other factors that need to be
 25 considered when establishing depreciable lives, and

Page 164

EXAMINATION BY MR. FFITCH / DALLEY

1 those other factors could be and are policy implications
 2 or environmental regulations. And so even if we were to
 3 conduct a depreciation study tomorrow, the result of our
 4 proposal in this case would not change.

5 **Q. And you didn't file an economic study with**
 6 **regard to either Bridger or Colstrip in this case,**
 7 **correct?**

8 A. That's correct. It's not the calculations of
 9 the adjustment to the -- the lives that we're proposing
 10 to adjust, to shorten, are based on policy
 11 considerations and align with depreciable lives that
 12 were previously approved by this Commission.

13 **Q. And when will PacifiCorp's next IRP be presented**
 14 **to the Commission?**

15 A. Our next -- we just filed our 2015 IRP update at
 16 the end of March, and our next depreciation or IRP will
 17 be presented to the Commission in March of next year.
 18 And so it's a two-year cycle, so we filed in March of
 19 2015, we will file in March of 2017. In those
 20 in-between years, we present an IRP update.

21 **Q. So it would be possible for the Company to file**
 22 **a depreciation study in the same timeframe as the IRP**
 23 **before this Commission, would it not?**

24 A. It's certainly possible. We do have the
 25 flexibility. There's no requirement that we have to

Page 165

EXAMINATION BY MR. FFITCH / DALLEY

1 wait five years. We could file in that timeframe, but
 2 then it would take some time for that to be evaluated
 3 and approved.

4 And the reason we're making the proposal as part
 5 of this case is we think it's a prime opportunity to
 6 make this change. Any further delay compresses the
 7 window of opportunity you have to adjust rates without
 8 having a significant impact on customer rates. And so
 9 the longer you wait, the greater the risk that
 10 increasing the depreciation expense or shortening the
 11 lives will have a more drastic impact to customer rates.

12 **Q. If you did file a depreciation study sooner, for**
 13 **example, in 2017, that depreciation study would be able**
 14 **to take into account the additional policy**
 15 **considerations you're talking about along with all of**
 16 **the other elements that are contained in the CFR, would**
 17 **it not?**

18 A. It would, but when it comes to coal facilities,
 19 I think the overriding element that will determine those
 20 depreciation rates is not the engineering component;
 21 it's the policy component.

22 **Q. But again, you could -- the Commission and the**
 23 **Company itself could consider that in the context of the**
 24 **full depreciation analysis and also of an IRP that was**
 25 **being presented in approximately the same timeframe?**

Page 166

EXAMINATION BY MR. FFITCH / DALLEY

1 **A. It could, yes.**

2 **Q. You acknowledge in your testimony -- in your**
 3 **rebuttal testimony that changing the depreciation lives**
 4 **would not restrict PacifiCorp from using generation**
 5 **resources from Jim Bridger or Colstrip to serve**
 6 **Washington customers after 2025 in the case of Jim**
 7 **Bridger, or 2032 in the case of Colstrip, correct?**

8 A. That is correct.

9 **Q. So it's quite possible that the plant -- both**
 10 **those plants would be running after the accelerated**
 11 **useful life dates that you propose here, and they would**
 12 **be serving Washington customers; isn't that true?**

13 A. Yes, that's a possibility.

14 **Q. And it's correct, is it not, that Pacific is**
 15 **planning to put into service SCRs or scrubbers as a**
 16 **substantial expense in 2021 and 2022 for the Jim Bridger**
 17 **plants just prior to the service life date of 2025 that**
 18 **you're proposing here?**

19 A. There are investment decisions associated with
 20 Jim Bridger Units 1 and 2 that will need to be made.
 21 The Company has not made those decisions, and
 22 anticipates evaluating all options associated with
 23 complying with federal and state requirements when it
 24 makes those investment decisions on those units.

25 **Q. Okay. Thank you.**

Page 167

EXAMINATION BY MR. FFITCH / DALLEY

1 **Mr. Dalley, are you aware of recent legislation**
 2 **in Utah that provides for the establishment of a**
 3 **regulatory liability that could be used at some future**
 4 **date to depreciate a thermal generation plant?**
 5 A. Yes, I'm generally familiar.
 6 **Q. And in that legislation, Utah Commission would**
 7 **determine that it's in the public interest for**
 8 **compliance with environmental regulation or other**
 9 **purposes; that is, the regulatory liability would be**
 10 **used for that purpose?**
 11 A. Yes.
 12 **Q. And it's true, isn't it, that under that**
 13 **legislation, the depreciation rates are not being**
 14 **changed for Pacific Power?**
 15 A. That is correct. The -- the legislation in Utah
 16 is a bit different. And as I mentioned earlier, each
 17 state has kind of jurisdiction over how they want to
 18 treat depreciable lives for investments, and there's
 19 differing perspectives, as you could imagine, among our
 20 service territory.
 21 The Utah specific legislation allows for a pool
 22 of dollars to be used and set aside for potential early
 23 retirement of coal facilities, but it's packaged
 24 together with a number of different factors, including
 25 changing the way the Company recovers its -- the cost of

Page 168

EXAMINATION BY MR. FFITCH / DALLEY

1 its demand-side management programs.
 2 And so it's different than what we have here
 3 before this Commission as part of this case, but it's
 4 a -- it's another way to address some of the risks that
 5 we're talking about here.
 6 JUDGE FRIEDLANDER: So Mr. ffitch --
 7 MR. FFITCH: Yes.
 8 JUDGE FRIEDLANDER: -- is this proposed
 9 legislation or is this passed legislation?
 10 MR. FFITCH: It's passed, adopted
 11 legislation, your Honor.
 12 JUDGE FRIEDLANDER: And what is the citation
 13 to that? We'll take official notice of it.
 14 MR. FFITCH: I can get that with you after
 15 consultation with our witness.
 16 JUDGE FRIEDLANDER: Okay. Thank you.
 17 BY MR. FFITCH:
 18 **Q. I'd like to switch gears a little bit,**
 19 **Mr. Dalley, and talk about the rate plan proposal in the**
 20 **case.**
 21 **In your rebuttal testimony, you state that the**
 22 **purpose of the rate plan is to address asserted, quote,**
 23 **"earnings attrition," end quote, and cost increases,**
 24 **correct?**
 25 A. Could you point me to the cite? That sounds

Page 169

EXAMINATION BY MR. FFITCH / DALLEY

1 correct.
 2 **Q. I sure can. That's rebuttal testimony, RBT-3**
 3 **[sic], page 18.**
 4 A. Okay. Thank you.
 5 **Q. And it's at line 14, I believe.**
 6 **COMMISSIONER JONES: What page is that,**
 7 **Counsel?**
 8 MR. FFITCH: Page 18, your Honor, and it's
 9 lines 14 and 15.
 10 BY MR. FFITCH:
 11 **Q. Do you see that, Mr. Dalley?**
 12 A. Yes, I do. Thank you.
 13 **Q. And PacifiCorp has not filed an attrition study**
 14 **in this case, has it?**
 15 A. It has not. I clarify in my testimony that we
 16 have not filed a formal attrition study in support of
 17 our second-year rate increase. We've taken a different
 18 approach. We've used our historical under-earnings and
 19 ten-year trend of under-earnings as support of that
 20 two-year rate plan, but the way we've calculated that
 21 second-step rate increase is with discrete and
 22 measurable adjustments that will happen to our revenue
 23 requirement in that second year.
 24 **Q. And you state in your testimony over on page 22,**
 25 **line 5 -- this is your rebuttal testimony, RBT-3 [sic],**

Page 170

EXAMINATION BY MR. FFITCH / DALLEY

1 **that "PacifiCorp is not proposing an attrition**
 2 **adjustment that relies on trending analysis or**
 3 **escalation factors" the way that Avista did in its last**
 4 **general rate case, correct?**
 5 A. That is correct. I think the next sentence kind
 6 of describes what I was just referring to; it's "based
 7 on limited, discrete adjustments."
 8 **Q. Isn't the Company essentially just asking for a**
 9 **future test year approach in this case?**
 10 A. No. That's not what we've proposed. A future
 11 test year would walk all elements of revenue requirement
 12 forward to the future rate year. We tried to make our
 13 two-year rate plan relatively easy to audit and review
 14 and transparent for parties, as we've identified four
 15 discrete items, three capital investments, and the
 16 expiration of production tax credits as the calculation
 17 to quantify that increase for the second year.
 18 **Q. So is that a future test year for just those**
 19 **particular cost items?**
 20 A. No. Each of those components will be known and
 21 measurable well in advance of that second step rate
 22 increase. Each of those investments will be completed
 23 by the end of this year. In fact, one of them, our
 24 EMS/SCADA project, has already been completed; Union
 25 Gap, which is the second of the three capital

Page 171

EXAMINATION BY MR. FFITCH / DALLEY

1 investments, will be completed this month; and the SCR
 2 and Bridger Unit 4 will be completed in November of this
 3 year.

4 MR. FFITCH: May I have a moment,
 5 your Honor? I'm getting relatively close again.

6 JUDGE FRIEDLANDER: That's fine. Thank you.

7 BY MR. FFITCH:

8 **Q. Mr. Dalley, could you please turn to your**
 9 **rebuttal testimony, RBT-3 [sic], page 30?**

10 A. Yes, I'm there.

11 **Q. And then looking at lines 8 through 10, and**
 12 **there you indicate, "The Commission found that the**
 13 **record in the 2014 rate case was inadequate to**
 14 **demonstrate that the use of end-of-period rate base did**
 15 **not violate the matching principle."**

16 **That's your testimony, correct?**

17 A. Yes.

18 **Q. And then on this same page, lines 1 through 5 up**
 19 **above, you state that "the Commission found that**
 20 **PacifiCorp had not established that it met one of the**
 21 **four conditions that justify the use of end-of-period**
 22 **rate base," right, and you list those four items?**

23 A. Yes, I do.

24 **Q. The first condition you identify is "abnormal**
 25 **growth in plant."**

Page 172

EXAMINATION BY MR. FFITCH / DALLEY

1 **You're not contending that the Company has had**
 2 **abnormal growth in plant in this case, are you?**

3 A. I didn't specify that in my testimony, although
 4 I think an argument can be made. The four investments
 5 that we have included as part of this case are
 6 substantial.

7 The Jim Bridger Unit 3 and 4 upgrades are in the
 8 \$130 million range each; and our EMS/SCADA project is
 9 around 32 million; the Union Gap substation is around 20
 10 million. And so all of those are significant capital
 11 additions in the Company's rate base.

12 **Q. Those are proposed for inclusion in year two,**
 13 **not by means of an end-of-period rate base analysis;**
 14 **isn't that right?**

15 A. The Jim Bridger Unit 3 addition is part of year
 16 one.

17 **Q. The next condition that's listed is [as read]**
 18 **"inflation and/or high attrition."**

19 **You're not claiming that we are in a period of**
 20 **high inflation at this time, are you?**

21 A. No.

22 **Q. And then the third criteria that you identify is**
 23 **"as a means to reduce regulatory lag."**

24 **Do you agree that, in this case, even with an**
 25 **end-of-period rate base included, there would be no rate**

Page 173

EXAMINATION BY MR. FFITCH / DALLEY

1 **increase at all in year one if the adjustment to**
 2 **accelerate depreciation is removed?**

3 A. While that is true that there would be a reduced
 4 revenue requirement from what we're proposing, our
 5 proposal to use end-of-period rate base is important in
 6 this case and is different than the 2014 rate case
 7 because we're requesting a two-year rate plan. And
 8 those circumstances are different than what we had in
 9 the last case.

10 And so establishing end-of-period balances in
 11 that first year of the revenue requirement is important
 12 because we don't plan to have a case, or we're planning
 13 to stay out of a rate case for that rate plan. And so
 14 that element is different than what we had in the prior
 15 case.

16 **Q. But how do you explain that if there's no**
 17 **increase -- absent the depreciation acceleration, if**
 18 **there's no increase otherwise shown for year one that's**
 19 **demonstrative of regulatory lag? I guess that's what**
 20 **I'm having trouble understanding.**

21 A. Well, I think, as Staff points out in its
 22 testimony, that when establishing a multi-year rate
 23 plan, aligning rate-based balances with the levels that
 24 are anticipated for the rate effective period are
 25 important. And if you have annual rate cases where you

Page 174

EXAMINATION BY MR. COWELL / DALLEY

1 could reset those rate-based balances each year, I think
 2 that's what the Commission was referring to in the 2014
 3 order that you referred me to on lines 8 through 10 of
 4 my testimony.

5 But in this case, we've taken a different
 6 approach. We've proposed two modest increases and a
 7 two-year rate plan, and so establishing those rate-based
 8 balances at the end-of-period levels for that first year
 9 is important to allow us to kind of honor that rate
 10 plan.

11 **Q. All right. Thank you, Mr. Dalley.**

12 MR. FFITCH: Your Honor, I have no further
 13 questions for this witness.

14 JUDGE FRIEDLANDER: Thank you, Mr. ffitc.
 15 Mr. Cowell?

16 MR. COWELL: Thank you, your Honor. Good
 17 morning, commissioners.

18 *** EXAMINATION BY MR. COWELL ***

19 BY MR. COWELL:

20 **Q. And good morning, Mr. Dalley.**

21 A. Good morning.

22 **Q. So Mr. Dalley, if we could start with**
 23 **Cross-Exhibit 5.**

24 A. Okay. I'm there.

25 **Q. And the first page, which is the response you**

Page 175

EXAMINATION BY MR. COWELL / DALLEY

1 prepared to Boise Data Request 102, quoted therein,
 2 there's mention of your testimony that the Company's
 3 second-year rate increase is based on limited, discrete
 4 adjustments, right?
 5 A. Are you referring to the question or the answer?
 6 **Q. Within the actual request.**
 7 A. Okay.
 8 **Q. And we can -- I can refer to the testimony**
 9 **specifically if you'd like.**
 10 **JUDGE FRIEDLANDER: I'm sorry. Which --**
 11 **this is multiple data request responses, so which one**
 12 **are you specifically referring to?**
 13 MR. COWELL: Oh, I'm sorry, your Honor.
 14 This is page one --
 15 JUDGE FRIEDLANDER: Okay. Thank you.
 16 MR. COWELL: -- of Boise Data Request 102.
 17 JUDGE FRIEDLANDER: Thank you.
 18 THE WITNESS: Yes. Thank you, Mr. Cowell.
 19 I just wanted to just orient myself to the question and
 20 the response here, but --
 21 BY MR. COWELL:
 22 **Q. It's about three-quarters of the way down.**
 23 A. Yes. I see that, yes.
 24 **Q. And in the response you prepared, you also**
 25 **stated that, quote [as read], "Basis for the Company's**

Page 176

EXAMINATION BY MR. COWELL / DALLEY

1 **second-year increase is earnings attrition," correct?**
 2 A. Yeah. It's the two elements in conjunction.
 3 **Q. Sure.**
 4 A. And so the Company's second-year rate proposal
 5 and two-year rate plan is based on our ten-year trend of
 6 earnings attrition, and then it is calculated using
 7 discrete and known and measurable items for that second
 8 year. And so it's those two elements together.
 9 **Q. Right. So to clarify, are you asserting that**
 10 **the earnings attrition basis for the second-year**
 11 **increase is founded on a discrete attrition adjustment?**
 12 A. No. As I've mentioned earlier in the discussion
 13 with Mr. ffitch, we have not prepared a formal attrition
 14 study as part of this rate case. We've taken a
 15 different approach, one that we believe is easy for
 16 parties to review, audit, for the Commission to verify,
 17 which are discrete and measurable cost increases
 18 associated with plant investments and the expiration of
 19 production tax credits.
 20 **Q. Okay. Thank you.**
 21 **Let's turn to the next page, please, page 2 of**
 22 **Exhibit RBD-5CX, and this is our Boise Data Request 103.**
 23 **Now, would it be fair to say that the Company**
 24 **takes the position that certain adjustments proposed by**
 25 **Public Counsel and Boise are not appropriate for**

Page 177

EXAMINATION BY MR. COWELL / DALLEY

1 presentation in a limited issue case?
 2 A. Yes.
 3 **Q. Now, you prepared this data response citing to**
 4 **Staff testimony in a prior case in which Staff indicated**
 5 **in an expedited rate filing that certain adjustments**
 6 **would not be included; is that correct?**
 7 A. Yes.
 8 **Q. And if you would please turn to**
 9 **Cross-Exhibit 6 -- RBD-6CX.**
 10 **So this is that exhibit that you referred to,**
 11 **right?**
 12 A. That is correct.
 13 **Q. And if we turn to the first page of that**
 14 **exhibit, right in the subtitle, it's subtitled For Use**
 15 **in a 2014 PacifiCorp Expedited Rate Filing, correct?**
 16 A. Yes.
 17 **Q. And at other times in this testimony, it also**
 18 **discusses developing rates in an expedited rate filing,**
 19 **that exact term, correct?**
 20 A. In this exhibit?
 21 **Q. Yes.**
 22 A. You said testimony in this exhibit? Yes.
 23 **Q. Mr. Dalley, would you agree that in Order 3 in**
 24 **this proceeding, the Commission explicitly did not**
 25 **recognize this filing as an expedited rate filing or an**

Page 178

EXAMINATION BY MR. COWELL / DALLEY

1 **ERF?**
 2 A. Yes, that is my understanding, that the order
 3 was issued saying it was not an ERF, but it was a
 4 limited issue filing and set it for an expedited
 5 procedural schedule.
 6 JUDGE FRIEDLANDER: And just for the court
 7 reporter's benefit, that's E-R-F. Thank you.
 8 MR. COWELL: Thank you, your Honor.
 9 BY MR. COWELL:
 10 **Q. Mr. Dalley, if you would, please, turn to page 3**
 11 **of Exhibit RBD-5CX, which is Boise Data Request 104.**
 12 **And in this data request, Boise asks the Company**
 13 **whether it agreed that both Pacific Power and Boise are**
 14 **recommending a determination on accelerated depreciation**
 15 **on a policy basis, right?**
 16 A. Yes.
 17 **Q. And you prepared a response to Boise DR 104**
 18 **stating that Pacific Power's proposal is for a**
 19 **policy-based change in asset depreciation; is that**
 20 **correct?**
 21 A. Yes.
 22 **Q. In the same request, and this would be right at**
 23 **the end of the actual request, the testimony of**
 24 **Mr. Mullins on behalf of Boise was quoted, recommending**
 25 **that the Commission should evaluate accelerated**

Page 179

EXAMINATION BY MR. COWELL / DALLEY

1 depreciation as a, quote, "policy question."
 2 **Is that accurately stated there?**

3 A. Yes. That's what it says here in the question.

4 **Q. Would you agree, then, that Boise's also**
 5 **requesting a policy-based resolution of the accelerated**
 6 **depreciation issue just as Pacific Power is?**

7 A. Yes, I think that's what my answer says here, is
 8 my understanding is Boise is in agreement with
 9 Pacific Power that we should adjust depreciation rates
 10 on a policy basis. There are some differences in
 11 Boise's proposal as discussed by Mr. Mullins that we
 12 don't agree with, but from -- on the policy basis of the
 13 depreciation change, yes, that is correct.

14 **Q. Okay. So fair enough.**
 15 **The first sentence of your response,**
 16 **"Pacific Power agrees that its proposal" also includes**
 17 **an agreement with Boise, not just agreeing to what your**
 18 **proposal states?**

19 A. Yeah.

20 **Q. Okay.**

21 A. Yes, we agree that it's a policy-based decision.

22 **Q. Okay. Thanks for that clarification.**
 23 **If we could turn to page 4 of that same exhibit,**
 24 **which is Boise Data Request 105, the response you**
 25 **prepared addresses an assumption -- and this is right at**

Page 180

EXAMINATION BY MR. COWELL / DALLEY

1 **the very first sentence here of your response -- and**
 2 **addresses an assumption that the Commission could adopt**
 3 **a policy related to rate treatment of the Jim Bridger**
 4 **plant at the end of the plant's depreciable life; is**
 5 **that correct?**

6 A. Yes.

7 **Q. Let's skip to the next page of this exhibit,**
 8 **which is Boise Data Request 107. And I wanted to ask**
 9 **about the Company's commitment to a stay-out. The**
 10 **Company's commitment to a stay-out -- to stay out --**
 11 **excuse me -- or not file an expedited or general rate**
 12 **case with a rate effective date prior to June 1st, 2018,**
 13 **is based upon whether the Commission chooses to, in your**
 14 **words, materially modify Pacific Power's revenue**
 15 **requirement proposals; is that right?**

16 A. Yes.

17 **Q. And so I want to follow up on the condition**
 18 **here.**
 19 **Could you elaborate or provide any objective**
 20 **standard around what you mean by "materially modify"?**

21 A. Well, in order for a rate plan to be effective,
 22 there has to be an incentive for the Company to agree to
 23 that stay-out provision. And if there is no rate
 24 adjustment, or if there is no incentive for the Company
 25 to stay out of rate cases, then it wouldn't necessarily

Page 181

EXAMINATION BY MR. COWELL / DALLEY

1 be in the Company's best interest to agree to that rate
 2 plan.

3 And so in Staff's testimony in this case, they
 4 talk about those incentives and how a rate plan can be
 5 effective. And so my reference in this answer is simply
 6 stating that the Commission has to take into
 7 consideration the entirety of the Company's proposal
 8 here, and to the extent that that is materially
 9 modified, it may not be in the Company's best interest
 10 to have a two-year rate plan. It may be better to go
 11 back to the -- kind of the annual rate case cycle to
 12 address the costs that we're experiencing. So that's
 13 what I'm trying to describe in this answer.

14 **Q. Sure. At the beginning of that answer, I**
 15 **believe that you said, if there's no rate adjustment.**
 16 **But what I'm trying to get to is, is there any bright**
 17 **line or objective basis that we can look at of when the**
 18 **Company -- at what point do they commit to a stay-out or**
 19 **at what point do they say, no, we're not going to commit**
 20 **to a stay-out.**

21 **So when you said "no rate adjustment," that's**
 22 **nothing. You've got a \$10 million request for the first**
 23 **rate year. Is there any point in between that we can**
 24 **put a definition on what "materially modified" means?**

25 A. I don't think I have a specific number for you,

Page 182

EXAMINATION BY MR. COWELL / DALLEY

1 Mr. Cowell, but there are proposals as part of this case
 2 for zero rate increase, and so trying to -- and I would
 3 view that as material.

4 **Q. Sure.**

5 A. And so we -- we have already before the
 6 Commission two modest increases, less than three percent
 7 in each of the years, and so we really have limited the
 8 issues that we've brought forth as part of this
 9 proposal.

10 To the extent that those are significantly
 11 modified from what we've proposed, and then imposing a
 12 rate plan, that may not be in the Company's best
 13 interest, and we may need to evaluate other regulatory
 14 options. But we're really trying to adapt to what this
 15 Commission has communicated through prior orders, to
 16 look for innovative regulatory solutions and to avoid
 17 this annual cycle of rate cases.

18 I've been doing this here with Pacific Power
 19 since 2007, since I've been in Portland, and I've been
 20 part of a number of these rates cases in front of this
 21 Commission, and we're trying to break that cycle.

22 And so our proposal in this case really needs to
 23 be evaluated in its entirety, which is a limited issue
 24 filing, a decoupling proposal and a two-year rate plan.
 25 And I think that those three components hang together.

EXAMINATION BY MR. COWELL / DALLEY

EXAMINATION BY MR. COWELL / DALLEY

1 Q. Thank you. That's a good segue to the next
2 question I wanted to ask.

1 quote, "the Company failed in the past to earn its
2 authorized return" is distinct from a finding concerning
3 the Company's inability to earn its authorized return;
4 is that correct?

3 If you could turn to the next page, which is
4 page 6 of Cross-Exhibit 5, and this is Boise Data
5 Request 108. Now, as I read the response you prepared,
6 I interpret you to define a stay-out period according to
7 rate effective dates; is that correct?

5 A. I think we're -- can you -- can you ask the
6 question again? I'm just trying to make sure I
7 understand the distinction you're making.

8 A. Can you give me just a moment --

8 **Q. Sure. Well, I guess that's what I'm asking
9 here. You confirmed that the terminology was different
10 between the Company -- the Commission allegedly finding
11 that the Company was -- had an inability to achieve its
12 authorized return, and you confirmed in the data
13 response that the Commission actually stated that the
14 Company failed in the past to earn its authorized
15 return.**

9 **Q. Sure.**

16 **And do you see a distinction there between those
17 terms?**

10 A. -- to refresh my recollection on this response?
11 I believe the question is asking about the
12 stay-out provision, and my answer here is clarifying
13 when the rates from the Company's next rate case would
14 be effective, which would be in the middle of 2018 at
15 the earliest.

18 A. I mean, the words are different. I think that
19 the facts that are in this case speak for themselves.
20 I've demonstrated that, since 2006, the Company has
21 not -- maybe I'll use a different word -- has not earned
22 it authorized return. And I believe that's what the
23 Commission order says.

16 **Q. Okay. Well, just to disengage it maybe from
17 this particular request, just to ask you your conception
18 of -- you were talking about innovative rate solutions
19 and trying to match the Commission's desires there.**

24 **Q. Okay. I'll switch gears here, Mr. Dalley.
25 The last topic I want to address with you**

20 **As you -- as you think about what's the value of
21 a stay-out period, does that involve a stay-out of rate
22 case processes?**

23 A. That's one consideration. I think that this
24 Commission has articulated that in prior orders where it
25 has noted, you know, the burden on the Commission and

EXAMINATION BY MR. COWELL / DALLEY

EXAMINATION BY MR. COWELL / DALLEY

1 other parties for annual, litigated rate cases. And so
2 that is definitely a consideration.

1 concerns the Company's updates to revenue requirement
2 made on rebuttal. And just as a caveat here, I realize
3 that some of these questions may be best suited for
4 Ms. McCoy, but as lead Company witness, and because I
5 think it gets to more of an overall Company strategy, I
6 wanted to ask you about this.

3 **Q. Okay. Thank you.**

7 **So to begin, the Company's updated its revenue
8 requirement request in rebuttal testimony, right?**

4 **Mr. Dalley, if you would turn to page 23 of your
5 rebuttal testimony, RBD-3T.**

9 A. Yes, it has.

6 A. I'm there.

10 **Q. Now, I understand from Ms. McCoy's testimony
11 that the updated revenue requirement has been prepared
12 assuming a July 1st effective date for both 2016 and
13 '17, correct?**

7 **Q. And if you would just look at lines 12 through
8 15 and Note 47.**

14 A. Yes.

9 **CHAIRMAN DANNER: I'm sorry. What page?**

15 **Q. And that's based on the procedural schedule
16 approved in this case, right?**

10 MR. COWELL: Oh, sorry, Commissioner. This
11 is page 23 of RBD-3T.

17 A. Yes.

12 CHAIRMAN DANNER: Thank you.

18 **Q. And I assume that you can confirm you
19 participated in that decision-making process to update
20 based on the procedural schedule?**

13 BY MR. COWELL:

14 **Q. So in lines 12 through 15, and also there's a
15 footnote there to Note 47, you were asked to respond to
16 a statement that the Commission previously made a
17 finding about, quote, "the Company's inability to
18 achieve its authorized returns since 2006," correct?**

21 A. Certainly. And when we -- we had originally
22 asked for a May 1, 2016, effective date for the first
23 increase, and then the second-year increase a year after
24 that. Based on the procedural schedule that was
25 identified early on in this proceeding, that target date

19 A. Yes.

20 **Q. And if you would -- maybe if you can keep your
21 place there, but if you would also just turn to page 8
22 of Exhibit RBD-5CX. It's the last page of that exhibit,
23 Boise Data Request 111.**

24 **And you confirmed that the actual Commission
25 order paragraph cited in your testimony states that,**

EXAMINATION BY MR. COWELL / DALLEY

EXAMINATION BY MR. COWELL / DALLEY

1 was moved to July. And so as part of our rebuttal
2 testimony, we adjusted the revenue requirement to match
3 that rate effective period based on that kind of
4 targeted rate effective date.

1 again based on the conference we had last week on
2 Friday.

5 **Q. Right. And as you said, the procedural schedule
6 was established early on, and subject to check, would
7 you agree that that was December 29th, 2015?**

3 **Q. Right. But --**

4 A. And so I think it's -- the Commission has the
5 discretion under its rules to take the full 11 months
6 for this case. We've requested it to be more expedited,
7 and the schedule was accommodated to allow for a more
8 expedited process. But that kind of hard date for when
9 rates will be effective, I guess, is not -- it's not a
10 bright line or a defined date.

8 A. Yes, subject to check.

9 **Q. And again, subject to check, that Appendix A of
10 Order 3 contained that procedural schedule?**

11 **Q. Okay. So you know, all that kind of foundation
12 leads up to this question.**

11 A. Yes, subject to check, that's my understanding.

12 **Q. Sure. Now, the Company filed supplemental
13 testimony and exhibits in this proceeding following the
14 issuance of Order 3; is that correct?**

13 **Why did the Company wait until the rebuttal
14 filing to update its revenue requirement based on a July
15 1st, 2000 [sic] effective date, as contemplated in that
16 December 2015 procedural schedule?**

15 A. That is correct. I believe -- I was here at the
16 prehearing conference for that, for this docket, and I
17 believe that was a request from Staff to file additional
18 cost of capital testimony.

17 A. I think in the -- in the schedule outline for
18 how the case proceeds, I think that's typical for the
19 Company to update its revenue requirement as part of its
20 rebuttal. The updates that were made as part of that
21 change of the rate effective period had both kind of
22 increases and decreases associated with them based on
23 the different elements.

19 **Q. And so more specifically, Mr. Bruce Williams
20 sponsored supplemental testimony and, subject to check,
21 that was -- I have it as January 7th, 2016.**

24 Ms. McCoy would be able to address them more
25 specifically. But in the procedural schedule that was

22 A. Yes, that sounds right.

23 **Q. That sounds about right?**

24 A. Subject to check, yeah.

25 **Q. Okay. And the -- that supplemental testimony**

EXAMINATION BY MR. COWELL / DALLEY

EXAMINATION BY MR. COWELL / DALLEY

1 **updated and provided additional information on certain
2 cost of capital issues. Would that be fair to say?**

1 set by the Commission, that was the next opportunity for
2 the Company to update its revenue requirement, and so
3 that's what we did.

3 A. Yes, it was on the capital structure and cost of
4 debt that was requested. I think Staff, the concern
5 they raised at the prehearing conference was that there
6 be a complete record on that issue, and so the Company
7 agreed to turn that supplemental testimony around in a
8 short timeframe and provide that to the Commission and
9 other parties for review.

4 **Q. And maybe this is a question better addressed to
5 Ms. McCoy, but do you know the difference between what
6 the Company's revenue rebuttal -- revenue requests would
7 have been had they not updated the rate period?**

10 **Q. Correct. And I think you've stated that the
11 original Company request for a rate effective date for
12 the first year was May 1st, 2016?**

8 A. I don't have that specific number off the top of
9 my head. It would be better addressed to Ms. McCoy.
10 But I could speak generally about what's driving that
11 difference in revenue requirement if you adjust that
12 rate effective period.

13 A. That is correct.

14 **Q. And the dates for this hearing, May 2nd, May
15 3rd, 2016, as well as other proceeding dates, those were
16 established in that prehearing conference order, right?**

13 And so if you adjust the rate effective period
14 farther out, our production tax credits expire, and as
15 they start to expire, that means the tax credits will be
16 available for less months of the test for the rate year,
17 and so that would drive revenue requirement up. But
18 there also could be additional depreciation associated
19 with our investments that could bring the revenue
20 requirement down.

17 A. Yes, that's my understanding.

18 **Q. So would it be fair to say that, at least by
19 December 29, 2015, the Company knew that first-year
20 rates would not be effective by the initially-proposed
21 date of May 1st, 2016, under the procedural schedule
22 established?**

21 Another driver for how it might change the
22 revenue requirement is our proposal to accelerate
23 depreciation. If you have fewer months to accelerate
24 the depreciation, so instead of May 1 you're using
25 July 1, then that will also put a little upward pressure

23 A. Yes, I think that's fair. I think that, as
24 we've found in the last week, that that effective date
25 for the first-year rate increase will likely be modified

Page 191

EXAMINATION BY MR. COWELL / DALLEY

1 on the revenue requirement as you have fewer months to
 2 achieve the same end-of-life target date that we've
 3 proposed in this case.

4 And so those are some of the elements, and
 5 really what we've tried to do for the Commission is
 6 provide an update of what that looks like using a new
 7 rate effective period based on the procedural schedule
 8 established, and trying to have a complete record that
 9 aligns with that schedule.

10 MR. COWELL: Thank you, Mr. Dalley.
 11 No further questions, your Honor.

12 JUDGE FRIEDLANDER: Thank you, Mr. Cowell.
 13 We can either take a break or get into bench
 14 questions. So we'll go on a ten-minute break and we're
 15 off the record. Thank you.

16 (A break was taken from
 17 10:48 a.m. to 11:02 a.m.)

18 JUDGE FRIEDLANDER: We'll go back on the
 19 record. And I believe instead of Commissioner
 20 clarification questions, we'll go into redirect and then
 21 Commissioner clarification if that's all right.

22 MS. MCDOWELL: That's fine, your Honor.

23 JUDGE FRIEDLANDER: And then when we're
 24 finished with the witness, we'll go ahead and impanel
 25 both Mr. Parcell and Mr. Strunk.

Page 192

EXAMINATION BY MS. MCDOWELL / DALLEY

1 MS. MCDOWELL: Okay. Thank you, your Honor.
 2 JUDGE FRIEDLANDER: Thank you.

3 *** EXAMINATION BY MS. MCDOWELL ***

4 BY MS. MCDOWELL:
 5 **Q. Good morning, Mr. Dalley.**
 6 A. Good morning.
 7 **Q. So I just have a couple of questions to follow**
 8 **up on the cross-examination.**
 9 **Staff counsel asked you about the fact that**
 10 **alignment with Oregon in terms of accelerated**
 11 **depreciation would result in unalignment [sic] or**
 12 **falling out of alignment with some of the other states**
 13 **in the PacifiCorp system.**
 14 **Have you considered those -- you know, those**
 15 **variables, that aligning with Oregon would mean that you**
 16 **would fall out of alignment with the other states, and**
 17 **how did that influence the decision or your proposal in**
 18 **this case?**
 19 A. Well, I think it's important to acknowledge
 20 that, under the West Control Area allocation
 21 methodology, California, Oregon and Washington are the
 22 three states in the WCA. And so Oregon, being the
 23 largest of the WCA states, we believe it's more
 24 important to align kind of with our western regional
 25 states, California, Oregon and -- California, Oregon and

Page 193

EXAMINATION BY MS. MCDOWELL / DALLEY

1 Washington, having those aligned is more advantageous
 2 than alignment potentially with our East side of the
 3 system.

4 And so -- and the policy and environmental
 5 objectives of the western states are much closer in
 6 alignment than what we see on the eastern side of our
 7 system. So we do believe it's more appropriate to align
 8 with the Oregon lives than some of the other states.

9 **Q. Mr. Dalley, Staff counsel also asked you about**
 10 **your proposal to move the lives of the Colstrip and**
 11 **Bridger units from 2037 and 2046, which are the Bridger**
 12 **and Colstrip current depreciable lives, to 2025. And**
 13 **his question was, was that just your hunch or just**
 14 **speculation that the 2025 lives would be, you know, more**
 15 **likely to be the foreseeable lives of those units.**
 16 **Can you answer the question? Was your -- is the**
 17 **Company's proposal to use a 2025 life based on a hunch**
 18 **or speculation?**
 19 A. No. It's -- it's based on our professional
 20 judgment, and it reverts back to the depreciable lives
 21 that the Commission here in Washington has approved.

22 **Q. Mr. Dalley, you were also asked by Public**
 23 **Counsel about the -- it's Exhibit 8CX.**
 24 **Do you have that exhibit in front of you?**
 25 A. I do.

Page 194

EXAMINATION BY MS. MCDOWELL / DALLEY

1 Q. And Mr. ffitc asked you particularly about the
 2 definition of depreciation and -- on page 4.
 3 I wanted to follow up with you on that question
 4 and ask you: In that case, did the Company decide
 5 against extending the lives of its thermal units, and
 6 does Mr. Lay's testimony speak to that issue?
 7 A. Yes. That was a consideration. In that same
 8 Exhibit RBD-8CX, exhibit page -- bottom of exhibit page
 9 8, which is the testimony page 7, and then continuing
 10 onto the next page, there's a Q and A that Mr. Lay
 11 addresses, which asks if the Company considered
 12 extending the depreciation lives of steam facilities to
 13 mitigate kind of the expense. And in prior depreciation
 14 studies, that had been the practice, where if you
 15 extended the lives of facilities, it would have less of
 16 an impact on depreciation expense and moderate the
 17 impact to customers.
 18 But in Mr. Lay's answer, he points to the
 19 uncertainty that existed at the time we were developing
 20 the depreciation study, and as a result of that
 21 regulatory uncertainty, we did not extend the lives; we
 22 maintained them. But we note that there was some
 23 uncertainty at that time.

24 **Q. Mr. Dalley, was that a change from previous**
 25 **practice?**

Page 195

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 **A. Yes. In the 2008 depreciation -- or 2007**
 2 **depreciation study that became effective in 2008, we had**
 3 **extended the lives.**

4 MS. MCDOWELL: That's all I have. Thank
 5 you, Mr. Dalley.

6 JUDGE FRIEDLANDER: Thank you. And
 7 commissioners?

8 *** EXAMINATION BY COMMISSIONER RENDAHL ***

9 BY COMMISSIONER RENDAHL:

10 **Q. Good morning, Mr. Dalley.**

11 A. Good morning, Commissioner.

12 **Q. So on that question of the depreciation lives**
 13 **and the definition, can you find that page, that**
 14 **additional definition in the CFR?**

15 A. Yes. What --

16 **Q. And can you read the definition of --**

17 A. Yeah, and I was trying --

18 **Q. You said item 11 or something.**

19 A. Yes. Okay. So it was Exhibit RBD-7CX, which
 20 was the exhibit from Public Counsel --

21 **Q. Correct.**

22 A. -- that Mr. ffitich referred to. So that's from
 23 the Code of Federal Regulations.

24 **Q. Correct. And you had referenced in your**
 25 **answer --**

Page 196

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 **A. In the Definitions section --**

2 **Q. -- an item 11?**

3 A. Item number 12, actually.

4 **Q. Item 12?**

5 A. Yes.

6 **Q. Okay. And you had mentioned other -- you had**
 7 **quoted something about other considerations and factors.**
 8 **Could you read that again?**

9 A. Yes. It's describing kind of depreciation and
 10 what to consider, and it says at the end of that
 11 section, "Among the causes to be given consideration are
 12 wear and tear, decay, action of the elements,
 13 inadequacy, obsolescence, changes in the art, changes in
 14 demand and requirements of public authorities."

15 **Q. Okay. And that's what I thought I heard.**

16 So in this case, you're recommending that we
 17 modify the depreciation rates due to a policy concern,
 18 specifically a risk to policies at the federal and state
 19 level.

20 So specific to Washington first, what
 21 requirement of public authorities is driving this
 22 decision in this state, for this state in particular?

23 A. Well, I think public authorities could be the
 24 Commission as one body. It could also be the EPA from a
 25 federal level. But I think what we see in Washington,

Page 197

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 there's no specific requirement for us to shut down any
 2 of our facilities at this point.

3 But there are definitely -- as Washington
 4 implements the Clean Power Plan, there will be policies
 5 implemented by the State that could have impacts. There
 6 could be other state policies that could be impacted
 7 that would restrict coal fire generation from
 8 neighboring states similar to what we've seen in the
 9 recent bill that was passed associated with Colstrip 1
 10 and 2.

11 **Q. In Oregon?**

12 A. I'm speaking of the legislation that was passed
 13 in Washington associated with Colstrip 1 and 2.

14 **Q. But that did not require closure, correct?**

15 A. Correct.

16 **Q. And it didn't require, as in Oregon, that the**
 17 **Commission couldn't include in rates anything related to**
 18 **the No Coal-by-Wire after those -- those current**
 19 **depreciation dates in Oregon, correct?**

20 A. Correct. The Washington legislation, my
 21 understanding, is really to enable -- to be -- for the
 22 utility to be able to react more nimbly to those
 23 emerging environmental regulations should there be a
 24 need to shut down those facilities at an earlier date.

25 **Q. So there's no specific requirement currently in**

Page 198

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 **Washington law that you're pointing to as a basis for**
 2 **making this policy change; it's because you think**
 3 **something might happen in the future in Washington, or**
 4 **on the federal level with the Clean Power Plan?**

5 A. Correct.

6 **Q. But there's nothing currently requiring this**
 7 **change?**

8 A. No.

9 **Q. So how do you reconcile that clarification that**
 10 **you read about the consideration of requirements of**
 11 **public authorities when there currently isn't a**
 12 **requirement?**

13 A. I reconcile it in that there's a variety of
 14 things that need to be considered when establishing
 15 depreciation rates, and it's not just an engineering
 16 study. So I was responding to Mr. ffitich that it
 17 doesn't have to be a specific engineering study that
 18 determines the rates. There are other considerations.

19 Considerations of public authorities is another
 20 one in the CFR, but as we've seen in prior Commission
 21 decisions here in Washington associated with our
 22 depreciation rates, the Commission ultimately has
 23 discretion over what they view is the appropriate life.

24 And so I believe there's discretion from the
 25 Commission to establish the depreciation rates that it

Page 199

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 feels is appropriate. But there's no requirement that
 2 it be a certain date based on a study.

3 COMMISSIONER RENDAHL: Okay. Thanks.

4 CHAIRMAN DANNER: Is my mic on?

5 *** EXAMINATION BY CHAIRMAN DANNER ***

6 BY CHAIRMAN DANNER:

7 **Q. Good morning, Mr. Dalley.**

8 A. Good morning, Chair Danner.

9 **Q. I want to follow up on that question from**
 10 **Commissioner Rendahl, because when we're talking**
 11 **about -- you say it's policy-based. Normally, you know,**
 12 **setting environmental policy is not the purview of the**
 13 **Commission. And so you're not asking us to determine**
 14 **when we would like the plant to close and set the**
 15 **depreciation schedule based on what we think the best**
 16 **environmental policy would be; is that correct?**

17 A. That's right.

18 **Q. So it's -- and is it more that, what you're**
 19 **asking us to do, is given all of the things you cited in**
 20 **your testimony and other things that might be in the**
 21 **record, that we would come up with what we determine to**
 22 **be our best estimate of when this plant is going to**
 23 **close?**

24 A. I don't believe the decision has to be when the
 25 plant is going to close. The distinction between

Page 200

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 economic life and operational life is important in that
 2 the facility could operate past a 2025 date, but there
 3 is risk that it may not be able to operate at least
 4 through its existing lives.

5 And because of that risk, we have a window where
 6 we could adjust depreciation rates now at kind of a
 7 modest impact to customers and kind of de-risk that
 8 future. And so that's the policy decision that we're
 9 seeking from the Commission in this case, is that if we
 10 act now and lead into that a bit where we have a few
 11 years, we could have enormous flexibility in the
 12 mid-2020 timeframe to react to environmental policies as
 13 they become clearer.

14 If we wait -- I think our concern is, if we wait
 15 and then act after there is some specified policy of
 16 when a plant has to close, there's less of a window to
 17 adjust those depreciation lives and it could have a
 18 greater impact to customers.

19 **Q. Yeah. So the way I see it, some of the policy**
 20 **considerations, if you want to call them that, would be,**
 21 **you know, we want to be concerned about**
 22 **intergenerational equity, that the people that are**
 23 **benefitting from this plant are the ones who are paying**
 24 **for it, and people who are -- so that you don't want to**
 25 **have -- you don't want to have the depreciation schedule**

Page 201

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 **too far in advance, because then you're going to have**
 2 **people who are benefitting from the plant who are not**
 3 **paying for it.**

4 **And on the other side of the coin, you don't**
 5 **want to be in a situation where you have higher rates**
 6 **when they're not necessary if the plant is going to be**
 7 **out there longer. And of course, as you said, you don't**
 8 **want to have rate shock, you want to avoid dramatic**
 9 **increases in rates.**

10 **And so basically what you're looking for is,**
 11 **what is the best match of the useful life and the**
 12 **operational or -- and the depreciation schedule; isn't**
 13 **that correct?**

14 A. Yeah. And I would just clarify economic life
 15 versus actual operational life, because in another
 16 state --

17 **Q. Well, talk to me about the distinction between**
 18 **the economic life of a plant and its operational life.**

19 A. Well, in each --

20 **Q. Doesn't the continued operation affect the**
 21 **economics of the plant?**

22 A. It could, but each state can determine the
 23 economic life based on its considerations of the issues.

24 And so these facilities that we're talking
 25 about, Colstrip in Montana and Jim Bridger in Wyoming,

Page 202

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 there's certain policy considerations in those states
 2 that could drive the actual operation of those
 3 facilities. Those states may choose to operate those
 4 facilities longer for service to customers in that state
 5 than a policy from a state here on the West Coast, such
 6 as Washington or Oregon.

7 But we are trying to align the depreciation to
 8 have customers pay for those resources over the life
 9 that we believe is more appropriate, and to avoid kind
 10 of that intergenerational equity issue on the tail end,
 11 where if customers today are not paying enough and that
 12 facility has to close early, then customers in the
 13 future that aren't benefitting from that resource would
 14 be bearing those costs.

15 **Q. So -- so you're asking us to make a judgment**
 16 **call. Right now, as Commissioner Rendahl's question was**
 17 **getting to it, it doesn't appear to me that we have any**
 18 **real requirements on a closure date right now. I**
 19 **also -- from what I'm hearing, the Company has no plans**
 20 **or commitments to shut the plant by any date certain.**

21 **And is it -- would it be the Company's policy to**
 22 **continue operating that plant as long as possible?**

23 A. No, the Company's policy would be to evaluate,
 24 you know, options, as we do in kind of our long-term
 25 planning, based on considerations from each of our

Page 203

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 states. And so there could be policy differences among
 2 the states, but, you know, through our long-term
 3 planning, we will do what's least cost, least risk,
 4 given the economics as well as the policy objectives of
 5 those states.

6 **Q. So if you have Utah and Idaho, for example,**
 7 **saying we want you to run those as long as possible, and**
 8 **you have Oregon and Washington saying we'd actually like**
 9 **it to be a little sooner, how do you resolve that?**

10 I mean, the problem is, is you're saying that
 11 your estimate is a better estimate than the status quo,
 12 but I think our obligation is to find -- if we were
 13 going to do this, we have to find the best estimate.
 14 And right now, I don't -- there's nothing. It's all --
 15 it all seems to be -- I don't know the rational basis on
 16 which to set a date.

17 I mean, what is the right date for closure?
 18 You've chosen 2025, but I don't -- I don't -- other than
 19 the fact that Oregon has that, Oregon is one of the six
 20 states, I'm trying to figure out what the right closure
 21 date would be if we wanted to go this route.

22 A. And I think that the Washington Commission can
 23 determine when they want these resources paid for, and
 24 that decision can drive and provide enormous flexibility
 25 for where the State wants to go as far as future

Page 204

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 resources.

2 And so I don't believe the decision has to be
 3 made by the Commission in this case based on a decision
 4 to close a plant at any specific date. But I think a
 5 decision to shorten the life to what had previously been
 6 approved by this Commission will enable the Company and
 7 its customers to adapt in the future.

8 And so I don't think it has to be tied to when
 9 those specific facilities will close. And maybe just
 10 noting on Oregon, they just passed legislation in this
 11 2016 legislative session that says, after 2030, coal
 12 resources can no longer be included in rates.

13 Now, that legislation does not require that
 14 facilities outside of Oregon, such as our plants in
 15 Wyoming, have to close by 2030, but Oregon has made the
 16 policy determination that they won't be included in
 17 rates beyond that date.

18 **Q. Right. And Washington has not done that, at**
 19 **least not yet. And so I'm still -- I'm trying to get a**
 20 **handle on -- assuming we need a rational basis for what**
 21 **we're doing, is -- is what you have in your testimony,**
 22 **have you provided that rational basis? And maybe you**
 23 **could restate it succinctly.**

24 A. Yeah, I think the rational basis is we're
 25 reverting to lives previously approved by the

Page 205

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 Commission, and to adapt to emerging environmental
 2 regulations that we're seeing today and that we
 3 anticipate in the future to prevent rate -- significant
 4 rate impacts to customers in future years. And so --

5 **Q. Okay. And you're seeing those in Washington?**

6 A. Well, in my testimony, I reference several. And
 7 so -- I mean, maybe pointing to a few of them, I
 8 believe --

9 **Q. Well, there were quotes of legislators, but I**
 10 **didn't --**

11 A. Well, maybe if I point to page --

12 **Q. Would you?**

13 A. -- 6 of my direct.

14 **Q. I'm sorry. Your direct?**

15 A. Yes, RBD-1T.

16 **Q. Yeah.**

17 A. And this is a list of items that are driving the
 18 Company's proposal as part of this case. And you could
 19 see the different policies. I mean, maybe if I jump to
 20 2013 where we have Washington Second Climate Action
 21 Bill; you've got in 2014, the Executive Order; and then
 22 we have 2015, the Clean Power Plan.

23 Since I filed my direct testimony, we had the
 24 passage of SB 6248 here in Washington. And although it
 25 does not specifically address the Company's resources, I

Page 206

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 think it's a policy direction that is informative for
 2 the Commission. And we also have the Governors' Accord
 3 For a New Energy Future that was signed by governors in
 4 Washington, Oregon and California.

5 **Q. So basically you're looking at sort of the**
 6 **trends and the gestalt of all of this. I mean, yes, we**
 7 **have an emissions performance standard that grandfathers**
 8 **existing plants; yes, we did pass 6248, but it doesn't**
 9 **really directly affect us.**

10 **But you're just saying, the overall flavor and**
 11 **trends that we're seeing over the last -- since 2006 is**
 12 **pointing in the direction of this plant as more likely**
 13 **to close in 2025 than it is currently going to -- than**
 14 **it would close at the end of its depreciation schedule?**

15 A. Certainly. And it's -- it's -- it's certainly
 16 intensified over the last several years, those policy
 17 changes.

18 **Q. Okay. Now, the testimony of witness Ramas**
 19 **suggested setting up a liability account. And in your**
 20 **testimony, you were concerned that this was burdensome**
 21 **and unnecessary. I was just -- I want to get a sense of**
 22 **what -- what is the burden that -- what is the burden**
 23 **that you would be facing if we were to do something like**
 24 **that?**

25 A. Well, the way -- unnecessary and burdensome

Page 207

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 is -- the way we do this in Oregon today, where Oregon
 2 has a separate depreciable life than our other states,
 3 and so we already have an accounting system that's set
 4 up to handle that kind of difference, and so there would
 5 be a separate tracking, there would be a separate
 6 reporting.

7 Looking at Ms. Ramas's testimony, it appeared
 8 that she wanted a little more than that, and I just
 9 don't know the value that that additional proposal would
 10 bring, because we'd already be tracking the amounts that
 11 Washington would be paying in excess of the current
 12 depreciation rates, and so it would be very transparent
 13 and identifiable just as it has been for our Oregon
 14 jurisdiction since 2008.

15 **Q. So -- but in terms of it being burdensome, it's
 16 not something that you would not -- you would be able to
 17 do that. It would create some additional work, but it's
 18 not really going to break the bank?**

19 A. It is a possibility. It would just -- I don't
 20 know the value that it provides other than what we're
 21 doing currently in Oregon that it addresses that
 22 difference in depreciation.

23 **Q. But Utah does this, right? They require --**

24 A. Again, the Utah proposal is different because
 25 it's not specific to any particular resource, and it's

Page 208

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 also -- it's a trade-off from how demand-side management
 2 costs are being reflected in rates. And so there is a
 3 distinction between our proposal here and in Utah,
 4 because there's a number of other factors in that Utah
 5 proposal.

6 What they did in Utah was they took demand-side
 7 management expenses that were included as an expense and
 8 they're now capitalizing that expense rather than
 9 expensing it, and then taking the value or the revenue
 10 requirement associated with that decreased expense and
 11 applying it to coal depreciation. And we're not
 12 proposing to capitalize demand-side management as part
 13 of this filing.

14 CHAIRMAN DANNER: All right. Thank you. I
 15 think that's all the questions I have.

16 *** EXAMINATION BY COMMISSIONER RENDAHL ***

17 BY COMMISSIONER RENDAHL:

18 **Q. I have one additional follow-up to that,
 19 somewhat related to the changing times and maybe the
 20 trends and gestalt that my colleague referred to.**

21 **So are you aware of any coalition or movement in
 22 Washington to, in the next -- before the next
 23 legislative session, propose a similar bill or similar
 24 initiative that was discussed in Oregon?**

25 A. I am not.

Page 209

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 Q. Is that at all part of your thinking?

2 A. I'm not particularly knowledgeable on the
 3 proposals. I know that there's a lot of environmental
 4 discussion that's happening in Olympia as well as in our
 5 other states, and so I am not part of any discussion
 6 specifically that would propose the same thing. I think
 7 that's certainly an option.

8 **Q. Do you know if PacifiCorp is involved in any of
 9 those discussions, whether you are or not?**

10 A. I know that we're involved with the different
 11 environmental groups, and it's -- since Oregon's so
 12 fresh, that everybody's seen what it's done, I think
 13 it's something that could be considered, but I don't
 14 know of any efforts particularly to push that. But --
 15 it's a consideration and it's an option, but it's not
 16 part of our proposal that we're seeking here.

17 COMMISSIONER RENDAHL: Okay. Thank you.

18 *** EXAMINATION BY COMMISSIONER JONES ***

19 BY COMMISSIONER JONES:

20 **Q. Good morning, Mr. Dalley. This is Commissioner
 21 Jones. I'm sorry for the --**

22 A. Good morning.

23 **Q. I'll try to speak clearly today. I have one of
 24 these bugs that have been going around.**

25 **So I'm going to follow -- the first line of**

Page 210

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 **questioning is going to be along the lines of -- the
 2 first line of questioning will be along the lines of
 3 Chairman Danner and Commissioner Rendahl.**

4 **Could you please turn to page 6 of RBD-1T?**

5 A. Yes, I'm there.

6 **Q. So just on a few of these, the Washington
 7 Executive Order 04-14, is this binding on the Commission
 8 in any way on imported coal power?**

9 A. My understanding is it is not.

10 **Q. 2015, what is your understanding of the Clean
 11 Power Plan? I think many of us, including Mr. Tepley
 12 for your company, have been heavily involved in this. I
 13 think this has been stayed by the Supreme Court, a lot
 14 of politics involved here perhaps with the new
 15 administration. I am thinking that the effect of any
 16 Clean Power Plan remanded back to EPA will probably be
 17 another two years.**

18 **Is that your assessment at PacifiCorp?**

19 A. I can't speak, Commissioner Jones, specifically
 20 to the timing. And I think it would be maybe a better
 21 question for Mr. Tepley -- I know he's not here today
 22 because that -- some of the issues he was covering are
 23 not before the Commission today.

24 **Q. Okay. Well, could you answer this question?
 25 What do you anticipate happening after oral**

Page 211

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 argument in the DC Circuit on June 2nd? Whatever comes
 2 out, most experts are saying will be appealed to the
 3 Supreme Court.

4 **Is that your assessment?**

5 A. Yes.

6 **Q. And then what happens after that?**

7 A. I think most -- we don't know for certain, but I
 8 think the Company's perspective is that it is likely
 9 that the Clean Power Plan would continue. The timing of
 10 implementation could change. Certainly other elements
 11 of it could change. But it's difficult for me to say
 12 exactly --

13 **Q. Okay.**

14 A. -- what might happen from that stay that's --
 15 that currently exists.

16 **Q. Okay. Could you go back to RBT-3T [sic], your
 17 rebuttal testimony? And I think it's one of your
 18 exhibits. Don't you have an exhibit attached with this
 19 governors' statement?**

20 A. Yeah. It's -- Exhibit RBD-4 is the Governors'
 21 Accord for a New Energy Future.

22 **Q. So my question to you is similar to the previous
 23 questions. A, is this binding on the UTC; and, B, does
 24 it have any specific ratemaking implementations that
 25 would bind us in this issue of accelerated depreciation?**

Page 212

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 **A. No, I don't believe it's binding on the
 2 Commission. I believe the Commission has discretion on
 3 this issue.**

4 **Q. Okay. Let's turn to page of your rebuttal
 5 [sic]. On page 5, this is more of a foundational
 6 question about the changes from your direct to your
 7 rebuttal testimony.**

8 **Are you there?**

9 A. Just to make sure I have the rebuttal testimony,
 10 RBD-3T, page 5?

11 **Q. Correct.**

12 A. Yes, I'm there.

13 **Q. Toward the bottom. In there you state that your
 14 revenue requirement recommendation has gone from 10
 15 million to 9 million, and you cite to bonus
 16 depreciation, reduced costs of Bridger 3 and production
 17 tax credit amounts.**

18 **Do you have any idea, for example, on -- is
 19 bonus depreciation the biggest driver of revenue
 20 requirement impact? And if so, what is it specifically,
 21 do you know?**

22 A. My understanding is that the update for bonus
 23 depreciation to reflect that on the capital additions
 24 that will be placed in service as part of this case had
 25 an impact of around \$350,000. So that was a big

Page 213

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 component.

2 The Bridger Unit 3 came in under budget, and so
 3 that had an update. I defer to Ms. McCoy on the
 4 specifics --

5 **Q. Okay.**

6 A. -- but I think that was another couple hundred
 7 thousand dollars.

8 We also, you know, accepted some adjustments
 9 from other parties, and so those had some impacts that
 10 brought the revenue requirement down. So there was, I
 11 would say in that update, as you would see in a typical
 12 case, some items that brought down the revenue
 13 requirement and other items that brought it up a bit.
 14 But in totality, the number was reduced by a million
 15 dollars.

16 **Q. Okay. Good. Thank you.**

17 **Could you turn back to -- this was a Public
 18 Counsel cross-exhibit, or maybe it was Boise, RBD-8CX.
 19 It's Mr. Lay depreciation testimony, I think.**

20 A. Yes.

21 **Q. Could you turn to page 8 of that?**

22 A. Yes.

23 **Q. On lines 1 through 5, I just want to be crystal
 24 clear on this, that this is your current policy in this
 25 case. On line 2, you -- Mr. Lay states [as read], "The**

Page 214

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 **Company is continuing to recommend retaining 61 years,
 2 as previously approved by the Commission, as the
 3 depreciable -- quote, depreciable terminal life of steam
 4 generating facilities where the Company is not a
 5 minority owner."**

6 **So do you still stand by that statement in this
 7 case? 61 years is the -- from a depreciation
 8 standpoint, what you're continuing to use?**

9 A. Um, no. We're proposing to modify that to
 10 adjust the lives to 2025 for Jim Bridger, 2032 for
 11 Colstrip, and so it's a modification from the 61 years
 12 that was approved -- argued by the Company and approved
 13 by the Commission in '13, so we're modifying it.

14 **Q. So you're actually contradicting or going back
 15 on Mr. Lay's testimony in that year on the depreciable
 16 terminal life of a steam generating unit?**

17 A. Yeah. We're -- I wouldn't say we're
 18 contradicting it, Commissioner Jones, but we're seeking
 19 a change to it --

20 **Q. That's fine.**

21 A. -- from the '13 depreciation study.

22 **Q. Next line of questioning, and I think you
 23 mentioned it to Commissioner Danner.**

24 **Could you describe -- and I don't know where it
 25 is in your rebuttal testimony, but this Oregon PUC**

Page 215

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 **monitoring for the incremental depreciation amounts**
 2 **that's been in place since 2008, could you both describe**
 3 **that from a depreciation -- from an accounting**
 4 **standpoint? It's not a regular -- it's not a regulatory**
 5 **liability account, but could you describe how it's done**
 6 **and then how the results are presented to the Commission**
 7 **Staff?**

8 A. Certainly. The -- since Oregon deviated from
 9 the live feed by our other states in 2008, we've had to
 10 set up a separate tracking to determine kind of what
 11 Oregon customers are paying with respect to -- I guess
 12 as compared to our other states.

13 And so we have one accounting system that is
 14 used for all six of our states, and -- and so we have to
 15 be able to input kind of what depreciation expense is
 16 that kind of aligns with the majority of our states, and
 17 then we make an adjustment to account for the Oregon
 18 specific amounts, because that has to be done kind of
 19 independently, or I would say kind of outside of the
 20 model.

21 That's the separate tracking and reporting that
 22 becomes available, and so then that separate accounting
 23 is then input into the accounting system to account for
 24 that incremental depreciation expense that Oregon has
 25 paid for.

Page 216

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 And so from a regulatory reporting standpoint,
 2 it's very transparent. We do it through an adjustment
 3 that comes through our Commission basis reports, and so
 4 they could see the incremental amounts of depreciation
 5 expense, both on the expenses and on the reserve in each
 6 report that we file with the Commission.

7 **Q. And that's submitted how often to the Commission**
 8 **Staff?**

9 A. So it's submitted each year as part of the
 10 Commission basis reports, and that's on a similar timing
 11 to what we file here in Washington.

12 **Q. Okay.**

13 A. And what we've proposed in this case is that we
 14 begin midyear Commission basis reports in Washington.
 15 So typically we file annually the end of April. We're
 16 proposing that we file midyear, so file for the
 17 12 months ending June, and we file that in October to
 18 provide another kind of check-in for the Commission that
 19 would provide transparency on our whole revenue
 20 requirement, but specifically it would provide some
 21 greater transparency on the depreciation issue.

22 **Q. Okay. If you could turn to page 11 of your**
 23 **rebuttal testimony, please, on lines 10 and 11. And**
 24 **therein you cite to something that I'm a bit confused**
 25 **about, a quote, "alternative allocation method that may**

Page 217

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 **include divisional allocation methodologies."**
 2 **You know, I've attended several meetings of the**
 3 **MSP. Our staff has been in and out, most recently out**
 4 **of the MSP meetings. But what specifically are you**
 5 **referring to as, quote, a "divisional allocation**
 6 **methodology"? Would this be something different from**
 7 **the WCA?**

8 A. No. I think it -- I've been a part of a number
 9 of those discussions as well. The proposals that were
 10 being considered as part of the last couple of years of
 11 discussions with parties from all of our states was,
 12 right now we have a system based methodology that's used
 13 for all states except for Washington, and Washington
 14 uses kind of WCA, the West Control Area.

15 And there's been some interest from other
 16 states, such as Oregon, in evaluating kind of that
 17 divisional approach, where it may be Pacific Power,
 18 Rocky Mountain Power type of divisions rather than a
 19 six-state system.

20 And so that's what I'm talking about. So I
 21 guess to answer your question directly, Commissioner
 22 Jones, I don't -- I think the divisional allocation
 23 methodologies, the WCA is --
 24 (Interruption by the reporter.)
 25 THE WITNESS: I'm sorry for talking too

Page 218

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 fast.

2 The divisional allocation methodologies
 3 described here is consistent, or at least conceptually
 4 similar to what we have already in place here in
 5 Washington.

6 BY COMMISSIONER JONES:

7 **Q. But Mr. Dalley, how does that -- how does that**
 8 **relate to Commission approval of different states'**
 9 **depreciation studies and then what you're trying -- what**
 10 **you're proposing here today with accelerated**
 11 **depreciation?**

12 **My recollection of the MSP discussion items did**
 13 **not include depreciation studies. It related to systems**
 14 **operation factor, situs versus non-situs, all of these**
 15 **things related to rate base revenues and costs, not**
 16 **depreciation. So I'm confused as to why you refer to it**
 17 **here.**

18 A. Yeah, the reason I refer to it is there's a
 19 number of complexities to deviate from allocation
 20 methodologies currently instituted by our states. And
 21 because of those complexities, it becomes challenging to
 22 identify a solution that would be workable for all of
 23 the states. Differing depreciation rates is one of
 24 those complexities in that Oregon has currently a
 25 shorter life than our other states. Aligning Oregon and

Page 219

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 Washington would eliminate at least one of those
 2 complexities when evaluating a future allocation
 3 methodology, and so that's why I refer to it here.
 4 CHAIRMAN DANNER: Commissioner, can I break
 5 in here?
 6 COMMISSIONER JONES: Sure.
 7 *** EXAMINATION BY CHAIRMAN DANNER ***
 8 BY CHAIRMAN DANNER:
 9 **Q. In that regard, when I see our role as trying to**
 10 **look at the evidence and determine what the best**
 11 **estimate of closure would be, it could be that in our**
 12 **analysis we'll find a date that's different than 2025.**
 13 **Maybe, you know, it could be a few years out, it could**
 14 **be a decade out, if we were to change it at all.**
 15 **And so my question is, is if we were to do that**
 16 **analysis and we were to land on 2031 or 2032, in your**
 17 **opinion, would that be unacceptable because it doesn't**
 18 **align with Oregon?**
 19 A. No, it would -- it would create some of the
 20 similar changes that we have today. And so I think
 21 getting alignment with the states would be advantageous,
 22 at least for the western states; and in particular, on
 23 this allocation issue, having alignment would be
 24 important.
 25 But as we've experienced with Oregon, having one

Page 220

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 state do something differently, we could accommodate
 2 that.
 3 **Q. Okay. But again, if I'm -- you know, I find the**
 4 **analysis of what is -- what is the right number, that --**
 5 **to -- to redo these depreciation schedules to be very**
 6 **difficult given what's in front of us, so I'm just**
 7 **trying to figure out how much flexibility you think we**
 8 **have.**
 9 A. And I think the Commission has discretion. I
 10 think the 2025 date for Bridger and 2032 date for
 11 Colstrip are, you know, appropriate dates to use,
 12 because it relies on a date that was previously approved
 13 by this Commission, and so it's not just a number pulled
 14 out of thin air.
 15 It's a date that has been used in previous
 16 depreciation studies, and it is also something that's
 17 consistent with the largest state in the West Control
 18 Area. And so I believe that that's a good date to use
 19 as part of this case, and then it wouldn't restrict the
 20 Commission from reevaluating that in the future. I
 21 think our concern with waiting additional time to
 22 evaluate is that you lose years and precious time where
 23 you could do something like that without having a more
 24 dramatic increase in rates.
 25 And as we see potential new renewable

Page 221

EXAMINATION BY CHAIRMAN DANNER / DALLEY

1 investments come into the state and as part of our
 2 western system, you know, having the cost increase
 3 associated with potential acceleration and
 4 depreciation -- I mean, we're trying to avoid customers
 5 getting hit with kind of the double whammy of new
 6 investments coming in and paying for old investments.
 7 And so if we could de-risk kind of that future
 8 by paying down some of these coal resources now, I
 9 believe that's in the best interest of our customers.
 10 **Q. Right. But you also have the opposite of that,**
 11 **which is people may be paying more early on, and if this**
 12 **thing extends into the future, you have not only the**
 13 **intergenerational but you have higher rates at the**
 14 **beginning that you could have avoided if you extended**
 15 **the --**
 16 A. Yeah, it certainly exists on both sides.
 17 **Q. Well, exactly, so -- so -- and that's why I**
 18 **wanted to just get your idea of what we have the**
 19 **flexibility to do, because it seems to me that this is**
 20 **going to be -- we have to take all of this into effect.**
 21 **And, again, the policy is not just, when do we**
 22 **want it to close? Well, that's not something -- that's**
 23 **not news we can use. The news we can use is the**
 24 **intergenerational equity. What is -- what's our best**
 25 **guess at the useful life of a plant, and the factors**

Page 222

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 **about who should be paying what when. And those are --**
 2 **if they're policy issues, those seem to be the policy**
 3 **issues that would be before us.**
 4 A. And it's much easier to adjust rates where
 5 you're lengthening life than shortening. Because when
 6 you're shortening the depreciation life, you're having
 7 an upward pressure in customer rates.
 8 And so if the Commission's concerned that the
 9 adjustment in this case would accelerate kind of to too
 10 short of a life, I mean, that could be evaluated in the
 11 future, and just as we did in previous depreciation
 12 studies, could be extended. But trying to do it in this
 13 case as part of a relatively modest increase to
 14 customers and provide that de-risking in the future.
 15 CHAIRMAN DANNER: All right. Thank you.
 16 Thank you for your indulgence.
 17 COMMISSIONER JONES: No. This is a good
 18 discussion, and I'm going to follow up on something you
 19 said.
 20 *** EXAMINATION BY COMMISSIONER JONES ***
 21 BY COMMISSIONER JONES:
 22 **Q. So my last line of questioning is EOP versus**
 23 **AMA -- for the reporter, EOP and capital AMA -- let me**
 24 **pose a hypothetical and have you respond to it, though,**
 25 **based on previous questions from Commissioners Rendahl**

Page 223

EXAMINATION BY COMMISSIONER JONES / DALLEY
 1 **and Danner and others.**
 2 **The next depreciation study is due in 2018,**
 3 **right?**
 4 A. Correct.
 5 **Q. There's going to be an election in the state of**
 6 **Washington and nationally. The Clean Power Plan, many**
 7 **of these environmental regulations, I would argue, are**
 8 **in limbo until we have more, quote, political**
 9 **uncertainty [sic]. Clean Power Plan is stayed until**
 10 **probably 2018.**
 11 **The responsibility for shutting down the coal**
 12 **plants, Bridger and Colstrip, lie not with the state of**
 13 **Washington but for the states in which those coal plants**
 14 **are located, Montana and Wyoming.**
 15 **Let's say there's a CPP and they're required to**
 16 **file a 111(d) plan by 2019, September. Wouldn't it be**
 17 **more rational and more certain for the Company to**
 18 **propose something like that, not just to wait and see,**
 19 **but recognizing these realities and deal with these**
 20 **issues in the 2018, '19 timeframe?**
 21 **That's a hypothetical, but could you respond,**
 22 **please?**
 23 A. Yeah. I think the opportunity now, I still
 24 think is ripe. It's an opportune time because the rate
 25 increases that we're seeking as part of this case are

Page 224

EXAMINATION BY COMMISSIONER JONES / DALLEY
 1 relatively modest, and so waiting to the 2018 or '19
 2 timeframe, as in your hypothetical, I think poses some
 3 risk of what the rate impacts associated with not only
 4 new investments that may be required, but amortization
 5 of existing investments, and so waiting creates some
 6 risk.
 7 I think what we've provided in this case is some
 8 predictability of what rates would be for the next
 9 couple of years and provide that de-risking of the
 10 future. And so I believe it would be more prudent to
 11 act now, and adjust these depreciation rights to a
 12 shorter -- the rates to a shorter life, and it could
 13 always be reevaluated as things become clearer and
 14 it's -- as I mentioned, it's easier to adjust, or at
 15 least when you're extending lives rather than shortening
 16 them has the impact of reducing rates rather than
 17 increasing rates. And so I believe it would be more
 18 appropriate to do it now than wait.
 19 **Q. And given all those issues that you cite to,**
 20 **Governors' proclamations, Congressional actions, Supreme**
 21 **Courts, you think, A, the Commission has the authority**
 22 **to do this, and, B, the Commission should take the**
 23 **policy initiative to do it at this time?**
 24 A. Yeah. The Commission certainly has the
 25 discretion to adjust depreciation rates in Washington,

Page 225

EXAMINATION BY COMMISSIONER JONES / DALLEY
 1 and can do so on a number of different bases, including
 2 engineering studies or considering other factors.
 3 And yes, I believe that it would be in our
 4 customers' best interest to adjust these depreciation
 5 rates now, and provide kind of more flexibility and
 6 allow us to adapt to the future regulations, yes.
 7 **Q. Okay. I'll finish up on this EOP versus AMA.**
 8 **If you could turn to pages 30 and 31 of your**
 9 **rebuttal testimony, please. Tell me when you're there,**
 10 **please.**
 11 A. Yes, I'm on page 30.
 12 **Q. Okay. In this testimony, you recognize that in**
 13 **the 2014 rate case we rejected the use of EOP, right?**
 14 A. Yes.
 15 **Q. And then we opposed four criteria, as you know,**
 16 **in the past: Inflation, aggressive capital expenditures**
 17 **and other factors in which EOP would be appropriate.**
 18 **And in your testimony, you cite to two of these**
 19 **criteria, do you not? Regulatory lag and the lack of**
 20 **earning your authorized rate of return.**
 21 **Are those the two primary factors you cite to?**
 22 A. Yes, they are. And I think I mentioned in my
 23 exchange with Mr. ffitth that, you know, the abnormal
 24 growth in plant could also be a consideration based on
 25 the investments that we have in this case.

Page 226

EXAMINATION BY COMMISSIONER JONES / DALLEY
 1 **Q. Abnormal growth in plant. Could you put a**
 2 **number on that in terms of incremental capital**
 3 **expenditures or growth in plant, or is it in anybody**
 4 **else's testimony that you could cite to?**
 5 A. I could do some rough math here.
 6 **Q. Could you, please?**
 7 A. Approximately 300 million of capital additions
 8 in this case between year one and year two associated
 9 with the Bridger 3 and 4 SCRs, Union Gap substation
 10 upgrades, and our Energy Management System or EMS
 11 upgrade.
 12 **Q. Okay. And does that include the SCADA system**
 13 **you referred to, or is that the same thing as EMS?**
 14 A. Yeah. I'm not certain why it has two acronyms,
 15 but in the utility business we really like acronyms, so
 16 that one has two. EMS/SCADA, and that's Supervisory
 17 Control and Data Acquisition.
 18 **Q. And then finally, I just want to be clear, if**
 19 **you could go back to your direct testimony, RBT-1T [sic]**
 20 **on page 9. We went through this in the last case,**
 21 **Mr. Dalley, these numbers on alleged under-earning.**
 22 **Are you there?**
 23 A. Yes.
 24 **Q. And I'm trying to get a sense of what you think**
 25 **is the most appropriate benchmark to refer to. And for**

Page 227

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 example, I personally think it's the pro forma line
 2 item. And if we just go to 2014, that would be 8.08.
 3 Your authorized ROE is 9.50, so that's a difference of
 4 about 150 basis points, right?

5 A. Yes.

6 **Q. So should the Commission be looking at per books**
 7 **restated pro forma when we compare it to the authorized,**
 8 **which one -- I think we generally rely on the CBR, the**
 9 **Commission basis reports, which obviously have restating**
 10 **adjustments, and we do some pro forma adjustments there.**

11 A. Based on my experience being -- before this role
 12 that I'm in today with Pacific Power, I had spent a
 13 number of years in revenue requirement. My opinion
 14 would be that the restated numbers are the most
 15 appropriate for measurement in any particular year,
 16 simply because that will take out kind of the weather
 17 sensitivity or weather impacts.

18 **Q. Okay.**

19 A. But will not include items that are beyond the
 20 test year. And so the pro forma line, although
 21 informative -- and I wanted to be clear and show all of
 22 them, because we report them on these different types in
 23 our Commission basis reports, all three of them, I
 24 didn't want there to be any confusion over, is that the
 25 per books number or the restated, so we provided them

Page 228

EXAMINATION BY COMMISSIONER JONES / DALLEY

1 all. But the pro forma numbers would include also some
 2 kind of forward-looking adjustments --

3 **Q. Yes.**

4 A. -- that would be beyond the test period.
 5 So if you're looking at earnings in any
 6 particular year, I think that the restated is an
 7 appropriate benchmark. But all of them are important,
 8 and I guess everybody's entitled to their opinion on
 9 which is the best. And I guess it really depends on
 10 what you're trying to use them for.

11 **Q. Right. Well, sometimes it depends on the ask,**
 12 **too. I think in many of the last three cases, you have**
 13 **been asking for many pro forma adjustments to go beyond**
 14 **the test year, and we've granted some, we've rejected**
 15 **some. And restating adjustments, I think, are a little**
 16 **more clear from an accounting standpoint.**

17 **So no, I'm not -- I'm not trying to have a**
 18 **discussion and advocate for any particular number here.**
 19 **I'm just trying to understand your reasoning.**

20 **COMMISSIONER JONES: Thank you. Those are**
 21 **all my questions.**

22 **JUDGE FRIEDLANDER: Thank you.**

23 **COMMISSIONER RENDAHL: Sorry to drag this**
 24 **out, but I have a couple more, Mr. Dalley.**
 25 **///**

Page 229

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 ***** EXAMINATION BY COMMISSIONER RENDAHL *****

2 **BY COMMISSIONER RENDAHL:**

3 **Q. So going back to the line of questioning that**
 4 **Chairman Danner had. So given that there's no**
 5 **depreciation study in this case, and the recommendation**
 6 **you're making is based on your -- based on policy**
 7 **considerations because of your concerns about what the**
 8 **environmental requirements might be in the future, given**
 9 **those uncertainties, would it be reasonable to set the**
 10 **depreciable life at Bridger -- would it be reasonable**
 11 **for this Commission to set the depreciable lives at**
 12 **Bridger and Colstrip at the midpoint between what the**
 13 **Company's proposing and the current until a depreciation**
 14 **study is done to begin that mitigation of the risk that**
 15 **you're discussing, but not at the level, to see what**
 16 **transpires in the future?**

17 **What are your thoughts on that?**

18 A. I think it would be more reasonable to adjust to
 19 the lives that we have in the filing, 2025 for Bridger,
 20 2032 for Colstrip.

21 **Q. Is your mic on?**

22 A. Yes, sorry.

23 **Q. Okay.**

24 A. I think 2025 and 2032 would be more appropriate
 25 because, as part of the rate plan, we're proposing to

Page 230

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 not adjust rates, kind of go off a cycle of rate cases.

2 And although there can be additional evaluation
 3 that can be conducted during that time, as well as, you
 4 know, IRPs that Commissioner Jones mentioned that we'll
 5 be filing, being able to adjust these rates now, I
 6 think, is very timely in that we could do this with less
 7 than three percent increases in two years, and avoiding
 8 another annual rate increase kind of in the middle.

9 And so adjusting to the shorter lives now, and
 10 then certainly evaluating new information as it becomes
 11 available, I would believe would be the most appropriate
 12 action.

13 **Q. So you would choose to potentially increase**
 14 **beyond what might be appropriate, and then lower versus**
 15 **incrementally get to that point?**

16 A. Yes. And particularly in this instance when we
 17 can do so at those modest increases to customer rates.
 18 And then if an evaluation occurs that would potentially
 19 lengthen those, that could be done in the future
 20 without -- and that change would be a decrease to rates.

21 **Q. Okay. So one last question, or line of**
 22 **questioning is, in your -- in answering Mr. Cowell's**
 23 **questions about the rate plan, you said there needs to**
 24 **be an incentive for the Company to stay out --**
 25 **essentially, some rate increase in year one, in your**

Page 231

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 **mind, is the incentive that the Company needs to make**
 2 **its proposal for a rate plan work.**
 3 **Is that your -- is that your testimony?**
 4 A. Yes. And really -- I'm really referencing
 5 Mr. Ball's testimony of his evaluation for Staff of the
 6 rate plan, that he commends the framework, and that rate
 7 plans work if there's predictability and kind of a
 8 series of rate adjustments that the Company can count
 9 on, and then the Company then has the incentive to
 10 aggressively manage its costs to live within those
 11 means.
 12 I think that the piece that's lacking from
 13 Staff's proposal to make that rate plan effective would
 14 be that incentive for the Company to manage its costs
 15 and to stay out of a case.
 16 And so the rate plan, at least as proposed by
 17 Staff, would have kind of no rate element of that plan.
 18 It would have the two-year plan, but no rate adjustment.
 19 And I think that's the element that's missing, and
 20 that's the incentive that's missing.
 21 **Q. But if the Company -- if this Commission decides**
 22 **that the basis for the year one increase is not**
 23 **appropriate, then the incentive wouldn't be appropriate?**
 24 A. Possibly, although we have -- we have limited
 25 the number of issues that we've brought in that year one

Page 232

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 presentation to the Commission. We've limited it to a
 2 smaller subset of issues than we would in a typical rate
 3 case setting.
 4 We have not advocated for an increase in our
 5 return on equity. We've not asked for changes in
 6 allocation methodologies. There's been a number of
 7 items that have been controversial here at the
 8 Commission as part of full-blown general rate cases that
 9 we've chosen not to bring to the Commission as part of
 10 this limited issue filing.
 11 And one of those issues -- the significant issue
 12 that's presented, though, is this accelerated
 13 depreciation. And so if that element is not considered
 14 or approved, then I think that incentive, as kind of a
 15 package of regulatory tools that we've brought to the
 16 Commission in this case, that incentive may not be there
 17 for the Company.
 18 **Q. And so if the Company were to grant a rate plan**
 19 **for two years without a year one increase, I understand**
 20 **your testimony to be that the Commission -- or the**
 21 **Company would evaluate whether it would accept that or**
 22 **not; is that correct?**
 23 A. That's correct. I think we'd have to take a
 24 look at our other regulatory options, whether that be
 25 going back to kind of the typical general rate case

Page 233

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

1 filings that we've made in the past.
 2 **Q. So you're saying, if the Commission were to**
 3 **order the rate plan, the Company could just come back**
 4 **the next year with a different rate case regardless of**
 5 **the rate plan that had been ordered?**
 6 A. Well, it's difficult to speculate exactly what
 7 the Company would do, but in order for the rate plan to
 8 be successful, I think there has to be a series of
 9 determined rate increases. And that's what we've
 10 proposed kind of 2.69 in year one and 2.99 in year two,
 11 similar to what's been done for Puget and Avista in
 12 their kind of multi-year rate plans.
 13 And so with an order that would -- and I think
 14 that the hypothetical that you're considering is, if the
 15 Commission orders no rate increase, but approves the
 16 rate plan, I think that that puts the Company in a very
 17 difficult circumstance where, on one hand, we may be
 18 prevented from filing for rate relief because of the
 19 rate plan, but not receiving kind of the rate recovery
 20 associated with the filing in this case. And so
 21 that's -- that would be a challenging situation.
 22 **Q. Okay. But the Commission's role here is to**
 23 **figure out whether the proposals the Company has made,**
 24 **with the testimony from all the others, means that**
 25 **there's sufficient basis for us to grant something,**

Page 234

EXAMINATION BY MS. MCDOWELL / DALLEY

1 **correct? That's the decision that we have to make,**
 2 **correct?**
 3 A. Certainly.
 4 **Q. Okay. Thank you.**
 5 A. And I just wanted to make sure that it's
 6 evaluated as part of the entire proposal, the different
 7 elements.
 8 COMMISSIONER RENDAHL: That's all I have.
 9 JUDGE FRIEDLANDER: Okay. Thank you. I
 10 don't often do this, but the commissioners' questions
 11 were pretty broad and extensive.
 12 So if you have redirect on the
 13 commissioners' questions, I will allow it.
 14 MS. MCDOWELL: Your Honor, thank you. There
 15 was a number of questions about environmental
 16 requirements, so if I may ask a question on that, I
 17 would appreciate that.
 18 JUDGE FRIEDLANDER: Go ahead.
 19 *** EXAMINATION BY MS. MCDOWELL ***
 20 BY MS. MCDOWELL:
 21 **Q. So Mr. Dalley, the various commissioners asked**
 22 **you several questions about what -- what environmental**
 23 **policies are there, and what level -- to what extent**
 24 **those were binding on the Company.**
 25 **So can you explain why it is that you've**

Page 235

EXAMINATION BY MS. MCDOWELL / DALLEY

1 **proposed accelerated depreciation now in advance of**
 2 **additional binding environmental requirements on the**
 3 **Company?**

4 A. We've made the proposal --

5 MR. FFITCH: Objection, your Honor. My
 6 sense is that's an extraordinarily open-ended question
 7 that just asks Mr. Dalley to restate his entire direct
 8 and rebuttal testimony on this topic, and not tied to
 9 any particular question that the commissioners had about
 10 environmental policies or specific testimony.

11 JUDGE FRIEDLANDER: Ms. McDowell?

12 MS. MCDOWELL: The reason I asked the
 13 question is because of the commissioners' various
 14 questions on what's the requirement and what's perhaps a
 15 threatened requirement or a future requirement.

16 So I'm just asking Mr. Dalley, in light of
 17 those questions, and the fact that some of these
 18 requirements are potentially future requirements, things
 19 that are risks, why is it that the Company proposed
 20 accelerated depreciation now as opposed to waiting until
 21 those laws were actually in effect and became binding
 22 and more clear.

23 I think it's a legitimate follow-up question
 24 to the several questions that the commissioners asked
 25 Mr. Dalley.

Page 236

EXAMINATION BY MS. MCDOWELL / DALLEY

1 JUDGE FRIEDLANDER: And I'm going to allow
 2 it. Overruled.

3 MS. MCDOWELL: Thank you.

4 THE WITNESS: The Company's proposal in this
 5 case really is to provide flexibility and be able to
 6 adapt to the regulations that are emerging. And
 7 although sometimes it -- we would like to wait, doing so
 8 in this instance could have a dramatic impact on
 9 customer rates in the future, and that's exactly what
 10 we're trying to avoid, to have predictable, modest
 11 increases while minimizing risk for the future.

12 BY MS. MCDOWELL:

13 **Q. Mr. Dalley, do you believe the Company has**
 14 **greater options for adjusting depreciation now than it**
 15 **might in the future?**

16 A. Absolutely. The longer window you have, the
 17 more flexibility you have to do something now and have
 18 it not impact rates as drastically, and that's what
 19 we're seeing in this filing where we increased the
 20 depreciation expense but keep those rate increases
 21 relatively modest for a two-year period.

22 And so by waiting, it could have much more
 23 dramatic increase in customer rates, especially if you
 24 consider the renewable resources that could be added to
 25 the portfolio based on similar environmental

Page 237

1 requirements.

2 MS. MCDOWELL: That's all I have. Thank
 3 you, your Honor.

4 JUDGE FRIEDLANDER: Thank you.
 5 And thank you for your testimony,
 6 Mr. Dalley.

7 THE WITNESS: Thank you.

8 JUDGE FRIEDLANDER: You're excused. We'll
 9 go off the record briefly.
 10 (Brief discussion off the record.)

11 JUDGE FRIEDLANDER: All right. We're back
 12 on the record.

13 We're going to take a lunch break. We'll
 14 recess until 1:30. Thank you.

15 (Lunch recess was taken from
 16 12:03 p.m. to 1:33 p.m.)

17 JUDGE FRIEDLANDER: All right. We'll be
 18 back on the record. Mistrs Strunk and Parcell, if
 19 you'll stand and raise your right hands.

20
 21 KURT STRUNK, witnesses herein, having been
 22 DAVID C. PARCELL, first duly sworn on oath,
 23 were examined and testified
 24 as follows:
 25

Page 238

1 JUDGE FRIEDLANDER: Thank you. You can sit
 2 down.

3 And I believe that Commissioner Jones has
 4 some questions for the two of you. And maybe when -- if
 5 you have a question directed at a specific witness, you
 6 can say that for the court reporter's benefit.

7 COMMISSIONER JONES: Sure.

8 COMMISSIONER RENDAHL: Are you going to
 9 introduce their testimony at all?

10 JUDGE FRIEDLANDER: To lay the foundation.

11 MS. MCDOWELL: We can swear the witnesses
 12 maybe.

13 JUDGE FRIEDLANDER: I think we're fine. We
 14 just swore the witnesses in.

15 MS. MCDOWELL: Okay. Good.

16 MS. CAMERON-RULKOWSKI: Your Honor, I'm
 17 sorry to interject here, but we do have some corrections
 18 to Mr. Parcell's testimony.

19 JUDGE FRIEDLANDER: That's what we should
 20 handle now.

21 MS. CAMERON-RULKOWSKI: All right.

22 COMMISSIONER JONES: Yes. So I think we
 23 can --

24 JUDGE FRIEDLANDER: Which document?

25 MS. CAMERON-RULKOWSKI: So it would be -- it

Page 239

EXAMINATION BY MS. CAMERON-RULKOWSKI / PARCELL

1 would be easiest if I could have Mr. Parcell walk us
 2 through -- walk us through them.

3 JUDGE FRIEDLANDER: Okay.

4 MS. CAMERON-RULKOWSKI: And would you like
 5 me to go ahead and introduce him?

6 JUDGE FRIEDLANDER: That would be fine.
 7 Just let me check and make sure that Mr. Strunk doesn't
 8 also have corrections.

9 MR. STRUNK: I do not.

10 JUDGE FRIEDLANDER: Yeah. Why don't we do
 11 that, and let's go ahead and lay the foundation also.
 12 Thank you.

13 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

14 BY MS. CAMERON-RULKOWSKI:

15 **Q. Good afternoon, Mr. Parcell.**

16 A. (By Mr. Parcell) Good afternoon.

17 **Q. Would you please state your full name?**

18 A. Yes. David C. Parcell.

19 **Q. And where are you employed?**

20 A. Technical Associates, Incorporated.

21 **Q. And what is your position with Technical**
 22 **Associates, Incorporated?**

23 A. I am president.

24 **Q. Please direct your attention to DCP-1T.**
 25 **Is this the testimony that you prepared in**

Page 240

EXAMINATION BY MS. CAMERON-RULKOWSKI / PARCELL

1 **response to Pacific Power's pre-filed direct testimony?**

2 A. Yes.

3 **Q. And are there any corrections that need to be**
 4 **made to this exhibit?**

5 A. Yes.

6 **Q. Please walk us through them.**

7 A. Sure. The reason I'm making a correction,
 8 Mr. Strunk properly pointed out in his rebuttal
 9 testimony that I had used an incorrect beta for one of
 10 my companies in my CAPM, so I'm going to incorporate
 11 that and indicate the impact.

12 Now, we'll start on Exhibit DCP-11, almost at
 13 the very end of my exhibits, DCP-11.

14 COMMISSIONER JONES: And Mr. Parcell,
 15 just -- this is Commissioner Jones. This regards Westar
 16 Energy, correct?

17 MR. PARCELL: Correct. On DCP-11, the top
 18 of the company [sic] is called Parcell Proxy Group. One
 19 is Westar Energy. I had improperly key-punched in .45.
 20 It should be .75. And that creates a CAPM rate of 6.7.
 21 And by the way, on the same schedule, DTE
 22 Energy was blank. That's also 6.7. And that changes
 23 the mean --

24 COMMISSIONER RENDAHL: Is your microphone
 25 on?

Page 241

EXAMINATION BY MS. CAMERON-RULKOWSKI / PARCELL

1 MR. PARCELL: It is now.

2 COMMISSIONER RENDAHL: And could you repeat
 3 the last thing about DTE; and is that the CAPM rate
 4 that's missing?

5 MR. PARCELL: Pardon?

6 COMMISSIONER RENDAHL: The CAPM rate that's
 7 missing on --

8 MR. PARCELL: Yes, that's 6.7 also.

9 COMMISSIONER RENDAHL: Okay.

10 MR. PARCELL: And by the way, on
 11 Mr. Strunk's Proxy Group, for Westar Energy, I also need
 12 to change that from .45 to .75, and the CAPM rate is
 13 6.7.

14 When I put these new numbers in, the only
 15 change on the table is the mean CAPM rate for the
 16 Parcell Group, instead of 6.7, it's 6.9. So the mean
 17 CAPM rate for Parcell Group is now 6.9.

18 Now, even though I did not use my CAPM
 19 results in my recommendation, there are some places in
 20 my testimony where these numbers are cited. So if the
 21 record could be complete, I'd like to change those, too.

22 The first is on page 4, the little table in
 23 the middle, which there's no line numbers, beside
 24 Capital Asset Pricing Model line, where it now shows
 25 6.7, put 6.7-6.9. And off to the right, in parentheses,

Page 242

EXAMINATION BY MS. CAMERON-RULKOWSKI / PARCELL

1 6.80 percent mid-point. And as you can see at the
 2 footnote 4 on that same page, I really don't use my CAPM
 3 results in my recommendation, but I do show them.

4 Next on page 29. 29. At the very bottom of
 5 the page when it shows Parcell Proxy Group, the mean
 6 should be 6.9 rather than 6.7.

7 Page 30, line 2, where you see 6.7, just put
 8 6.7-6.9. And on line 3, the same thing. Where it says
 9 6.7, put 6.90.

10 Then on page 34, the table between lines 15
 11 and 16, the CAPM mid-point is 6.8 instead of 6.7, and
 12 the range is 6.7 to 6.9.

13 Now, on page 36, line 3, in an unrelated
 14 change, at the end of that line, it shows 7.05. That
 15 should be 7.07. And instead of 7.30, it should be 7.31.

16 And finally, on DCP-5, DCP-5, page 2, DCP-5,
 17 page 2, the row that shows Berkshire Hathaway Energy,
 18 under the Standard & Poor's column there's a BBB+. That
 19 BBB+ is now an A. And the source shows now "Response to
 20 WUTC 148," add to that and "148 Supplemental."

21 And that concludes my corrections.

22 JUDGE FRIEDLANDER: Thank you.

23 BY MS. CAMERON-RULKOWSKI:

24 **Q. And I'll just finish up, Mr. Parcell.**
 25 **And in the course of the direct testimony that**

Page 243

EXAMINATION BY MS. MCDOWELL / STRUNK
 1 **you authored that I referred to earlier, you refer to**
 2 **Exhibits DCP-2 through DCP-14. And were all of these**
 3 **exhibits prepared by you or under your direction?**
 4 A. Yes.
 5 MS. CAMERON-RULKOWSKI: Thank you.
 6 Mr. Parcell is available for cross or to
 7 respond to questions from the bench.
 8 JUDGE FRIEDLANDER: Thank you.
 9 Ms. McDowell?
 10 MS. MCDOWELL: Thank you, Judge.
 11 *** EXAMINATION BY MS. MCDOWELL ***
 12 BY MS. MCDOWELL:
 13 **Q. Good afternoon, Mr. Strunk.**
 14 A. (By Mr. Strunk) Good afternoon.
 15 **Q. Mr. Strunk, how are you employed?**
 16 A. I'm a vice president with National Economic
 17 Research Associates in New York.
 18 **Q. In that capacity, did you prepare testimony and**
 19 **exhibits for this proceeding?**
 20 A. Yes, I did.
 21 **Q. And are those -- is that testimony on behalf of**
 22 **Pacific Power?**
 23 A. Yes, it is.
 24 **Q. Is your testimony KGS-1T through KGS-38; that**
 25 **includes both direct, rebuttal and exhibits supporting**

Page 244

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU244
 1 **both sets of testimony?**
 2 A. Yes, that's correct.
 3 **Q. Do you have any changes or corrections to that**
 4 **testimony?**
 5 A. No, I do not.
 6 **Q. If I were to ask you the questions that were set**
 7 **forth in your pre-filed testimony today, would your**
 8 **answers be the same?**
 9 A. Yes, they would be.
 10 MS. MCDOWELL: Mr. Strunk is available for
 11 Commission questions. Thank you so much.
 12 JUDGE FRIEDLANDER: Thank you.
 13 Commissioner Jones?
 14 COMMISSIONER JONES: Thank you.
 15 *** EXAMINATION BY COMMISSIONER JONES ***
 16 BY COMMISSIONER JONES:
 17 **Q. Good afternoon, Mr. Strunk.**
 18 A. (By Mr. Strunk) Good afternoon.
 19 **Q. Good afternoon, Mr. Parcell.**
 20 A. (By Mr. Parcell) Good afternoon.
 21 **Q. Thank you for flying in from the East Coast.**
 22 **I think that you're from Virginia?**
 23 A. (By Mr. Parcell) Yes, I am.
 24 **Q. And you're from New York City?**
 25 A. (By Mr. Strunk) Yes.

Page 245

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU245
 1 Q. So welcome. So I don't think this will take too
 2 long, but I will go through a few lines of questions
 3 on -- probably focusing more on your rebuttal
 4 testimonies -- well, rebuttal and your responsive
 5 testimony as corrected, Mr. Parcell.
 6 So Mr. Strunk, first with you, looking both at
 7 your proxy group and Mr. Parcell's proxy group, one is
 8 seven, one is twenty-three companies, I know, but are
 9 they generally similar for the purposes of your DCF
 10 analysis?
 11 A. (By Mr. Strunk) Well, they were developed using
 12 different screening criteria, but they're all electric
 13 utilities. I'd say obviously Mr. Parcell has a smaller
 14 group, we use different screening criteria, but they're
 15 certainly all electric utilities.
 16 **Q. Okay. And are there any -- since you filed your**
 17 **testimonies, are there any companies -- this is for both**
 18 **of you -- in the proxy groups that are involved in M & A**
 19 **speculation in trade prints or with rumors or with an**
 20 **actual transaction -- if memory serves, Westar Energy**
 21 **may be the subject of a proposed acquisition by Ameren,**
 22 **as I recall?**
 23 A. (By Mr. Strunk) That's certainly possible. It
 24 wouldn't affect the analysis because those would have
 25 been announced after the study was completed.

Page 246

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU246
 1 Q. Do you agree with that?
 2 A. (By Mr. Strunk) It sounds -- yes.
 3 **Q. Mr. Parcell, do you agree?**
 4 A. (By Mr. Parcell) Yes, because my analyses ended
 5 in February of this year.
 6 **Q. Okay. Mr. Strunk, I've had a chance to review**
 7 **your testimony in the last case in 2014.**
 8 **You were the cost of capital and ROE witness for**
 9 **the Company, correct?**
 10 A. (By Mr. Strunk) Yes, that's correct.
 11 **Q. And in that case, as you recall, we chose not to**
 12 **make a new determination of ROE based on the litigation**
 13 **in the court at that time, correct?**
 14 A. Yes. That was documented in the order. In
 15 addition, you noted that there were substantially
 16 similar capital market conditions.
 17 **Q. Now, Mr. Strunk, in your testimony in that case,**
 18 **you had a higher range, I think, for your DCF range. I**
 19 **think it was about 150 to 160 basis points as opposed to**
 20 **this case. Do you recall that?**
 21 **Well, first of all, let's start with the**
 22 **foundational question. What is the range of DCF in this**
 23 **analysis? I'm trying to find the -- I'll find it.**
 24 A. It's Exhibit KGS-20 and it's also Exhibit KGS-4.
 25 **Q. Correct.**

Page 247

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU247

1 **A. So the DCF ranges from 8.88 to 10.4 percent.**
 2 **Q. And -- well, it's 8.88 to 10.4. Okay. So you**
 3 **would regard your ranges that you proposed in the last**
 4 **case and this case to be in -- approximately in a**
 5 **similar range?**
 6 A. Yes. I believe my rebuttal testimony from the
 7 last case was 9 to 10.1.
 8 **Q. Right, 9 to 10.1, which is 110 basis points,**
 9 **right?**
 10 A. Yes.
 11 **Q. Okay. Let's talk about that exhibit you just**
 12 **referred to. Was it KGS-20? I thought -- no, it's not.**
 13 **In one of your DCF ranges -- no. It's -- this is more**
 14 **on the comparable earnings.**
 15 **I'm going to switch to comparable earnings for a**
 16 **minute, where you had a range of 9.63 to 16.61 percent,**
 17 **and that's specified in KGS-20, right?**
 18 A. Yes, that's correct.
 19 **Q. So I have a question about why you used the Dow**
 20 **Jones Industrial Average as a comparable earnings proxy.**
 21 **I understand the use of the Dow Jones Utility Index, but**
 22 **I don't understand why you're using the Dow Jones**
 23 **Industrial Average, that -- which produces the**
 24 **16.61 percent number. It seems awfully high.**
 25 A. Right. So the reason I look not only to the

Page 248

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU248

1 regulated utility industry but also to unregulated
 2 companies is, is because of the text of the Hope
 3 decision, which actually specifies that utility returns
 4 should be comparable to unregulated returns of similar
 5 risk.
 6 Now, obviously the Industrial Average is going
 7 to be riskier than the utilities group, but it does
 8 provide a benchmark which, when adjusting for risk,
 9 would show that a 10 percent return is reasonable in
 10 light of those risk differences.
 11 But it's an external benchmark. I wouldn't say
 12 the 16.61 is the right number for utilities. Utilities
 13 are of less risk than the industrials. But it does
 14 provide a point of reference, if you will.
 15 **Q. Doesn't the Dow Jones Utility Index [sic], as I**
 16 **recall, it consists of 30 stocks, but it includes some**
 17 **fairly -- I wouldn't say risky stocks. They're all**
 18 **large cap, capitalization stocks, of course, but it**
 19 **includes quite a -- technology, chemicals, it includes a**
 20 **broad range of unregulated industries that generally**
 21 **have a higher risk reward profile, does it not?**
 22 A. No. The Dow Jones Utilities Index --
 23 **Q. No. I'm referring to the Dow Jones Industrial**
 24 **Index.**
 25 A. Oh, oh, absolutely, yes.

Page 249

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU249

1 Q. Okay. But you still stand by using that as the
 2 upper bounds of your CE, your comparable earnings
 3 analysis?
 4 I think Mr. Parcell -- he can correct me if I'm
 5 wrong -- I think you used the S & P Composite Index.
 6 A. (By Mr. Parcell) Correct.
 7 A. (By Mr. Strunk) Right. I'm not saying that
 8 that's an upper bound that would set the top of the zone
 9 of reasonableness for electrical utilities. I simply
 10 included it as a point of reference, which is to say
 11 that, given the relative risk differences between the
 12 utilities and the industrials, that helps to place the
 13 overall utility rate of return recommendation in a
 14 broader context.
 15 **Q. While we're talking about equity and utility**
 16 **indexes, could you please turn to page 6 of your**
 17 **rebuttal testimony, KGS-19T, and tell me when you're**
 18 **there?**
 19 A. I'm with you.
 20 **Q. Okay. So here in lines 18 through 21 and**
 21 **before, you spend quite a bit of time talking about the**
 22 **volatility in today's equity markets, do you not?**
 23 A. Yes.
 24 **Q. So I'm having a problem squaring that with the**
 25 **fact that PacifiCorp is not a publicly-traded stock. It**

Page 250

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU250

1 **has no equity that's being traded. That's number one.**
 2 **And number two, if you look at the returns of the Dow**
 3 **Jones Utility Index over the past year, and recognize**
 4 **that it is not as volatile as other stock indices, I'm**
 5 **wondering why you still think that the Commission should**
 6 **look at volatility for this particular company. I'm not**
 7 **talking about the proxy group. I'm talking about**
 8 **PacifiCorp, which is owned by Berkshire Hathaway Energy,**
 9 **which is not public traded; Berkshire Hathaway is.**
 10 A. Right. So there were a couple of questions
 11 baked in there, and let me address them one at a time.
 12 First is the issue of the ownership of
 13 Pacific Power.
 14 **Q. Right.**
 15 A. And while it's true that Berkshire Hathaway
 16 Energy is not itself publicly traded, Berkshire
 17 Hathaway, the publicly-traded company, does have a
 18 significant share in it. So ultimately, some of the
 19 equity that is coming into Pacific Power is coming from
 20 investors in the equity markets.
 21 **Q. Right.**
 22 A. And even if it were privately held like Puget,
 23 for example, the Commission has made clear, when Puget
 24 went private, that the standard -- Puget should not be
 25 given a higher return just because it's private than it

Page 251

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU251

1 would if it had remained public.

2 So the standard has always been that you're

3 looking to publicly-traded, investor-owned utilities

4 when you're setting a benchmark for electric utility

5 authorized rates.

6 **Q. Okay.**

7 A. But then the second component --

8 **Q. I'm sorry. Go ahead.**

9 A. -- of your question was really around

10 volatility.

11 **Q. Right.**

12 A. And you note that, in the last year, utility

13 stocks have been less volatile than industrials, say.

14 And that has been the relationship historically. That's

15 what we've always thought. We've always thought that

16 utility risk -- utility stocks are relatively safe,

17 they're less volatile.

18 But I've tracked their volatility relative to

19 the industrials over time, and for the five years

20 following the beginning of the Great Recession, utility

21 stocks were actually more volatile than the S & P 500.

22 It's only in very recent past that they've started to

23 retake on that traditional behavior of being less

24 volatile.

25 **Q. But in your testimony, in lines 18 through 21,**

Page 252

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU252

1 **you do not cite the VIX Index for the utility industry;**

2 **you cite the VIX Industry [sic] for volatility for S & P**

3 **500 stocks, right?**

4 A. Right, because there's not a specific volatility

5 index associated with utilities.

6 **Q. Okay.**

7 A. You can measure it, but it doesn't trade. So

8 the VIX trades, it's very visible, it's what equity

9 investors look to as a metric for how volatile the

10 markets are.

11 **Q. Where's the VIX today?**

12 A. My understanding is that it's way up in the last

13 week. I couldn't tell you exactly where it is, but it's

14 very high.

15 **Q. Could you supply that for the record?**

16 A. Yes, I can undertake to supply it.

17 **Q. Okay. And maybe -- take it back maybe where it**

18 **was two months ago as opposed to today.**

19 **And will you, subject to check, accept that**

20 **the -- now, I checked the Wall Street Journal this**

21 **morning, the 52 return [sic] for the Dow Jones Utility**

22 **Average is 10.9 percent -- that's the return -- as**

23 **opposed to the Dow Jones Industrial Average has a**

24 **negative 1.4 percent return.**

25 **So that indicates to me that the Utility -- the**

Page 253

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU253

1 **Dow Jones Utility Index, at least over the past**

2 **52 weeks, has been pretty favorable.**

3 A. Before I confirm that, could you just clarify

4 what type of return you're talking about? Are you

5 talking about the return on investing in the stock?

6 **Q. Correct. That's a total return, including**

7 **yield.**

8 A. Okay. It's not the -- what I've done in the

9 comparable earnings analysis.

10 **Q. No, it's not. It's different.**

11 A. Okay. Okay.

12 JUDGE FRIEDLANDER: And let's go ahead -- do

13 you think you can get that to us today, or are you going

14 to need additional time?

15 MR. STRUNK: I'll do my best to get it to

16 you today.

17 JUDGE FRIEDLANDER: Okay. And why don't we

18 have that filed for the record as Bench Request No. 7.

19 Thank you.

20 BY COMMISSIONER JONES:

21 **Q. Mr. Strunk, I'm going to go back and forth,**

22 **that's why I have you seated together, if it's all right**

23 **with you.**

24 **Mr. Parcell, do you have any comments on what I**

25 **just talked about with heightened volatility in today's**

Page 254

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU254

1 **equity markets and the returns of utility stocks, both**

2 **recently and over the years, compared to other types of**

3 **equity?**

4 A. (By Mr. Parcell) I do. There is a measure of

5 volatility. It's called beta. The beta of any stock is

6 the relative variability of that stock versus the market

7 as a whole. And utility stocks have traditionally had

8 betas of well below one, whereas the market would be a

9 beta of one. So anything less than one is less volatile

10 and less risky in the market.

11 And I have a schedule -- or Exhibit DCP-14, page

12 2, shows the most recent value line betas for the proxy

13 groups, both mine and Mr. Strunk's, were roughly .74.

14 **Q. Mr. Parcell, if I could interrupt you, I find**

15 **it -- this is one of the few areas where the two of you**

16 **agree on something.**

17 **So both of your betas produce a 0.74?**

18 A. We can be reasonable. And as you can see, the

19 S & P Composite 500 -- the S & P 500 composite beta is

20 1.05, which -- that's what you expect because it's a

21 market index.

22 So utility stocks have historically had betas

23 less than one, and they currently have betas less than

24 one, so they -- and a case could be made, in a volatile

25 market, utility stocks were a safe haven. Go somewhere

Page 255	Page 257
<p>EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU255</p> <p>1 where the volatility's reduced. So that makes utility 2 stocks more attractive, relatively more attractive. 3 Q. Thank you. 4 A. (By Mr. Strunk) Commissioner Jones, would you 5 permit just a brief -- 6 Q. Sure. 7 A. -- rebuttal of that point -- 8 Q. Yes. 9 A. -- because -- 10 Q. You can have a surrebuttal. 11 A. Okay. Beta is not a measure of volatility. 12 When you structure a market model to predict how a given 13 equity is going to perform, you structure it as the -- 14 the price of the stock is going to be a function of the 15 beta plus an error term. And it's really the error term 16 that captures the volatility in the stock. It's not the 17 beta. The beta is -- 18 Q. Okay. 19 A. -- the contribution to -- to non-diversifiable 20 risk that investors require compensation for, but it's 21 not the measure of the volatility. 22 Q. Okay. Thank you. 23 I'd like to move on to CAPM now, your CAPM 24 analysis. And by the way, both of you did pretty much 25 the same methodology analysis. You did a DCF, you did a</p>	<p>EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU257</p> <p>1 geometric mean is not the appropriate mean for 2 performing a forward-looking analysis of the cost of 3 equity. You should really be using the arithmetic mean. 4 And the other big difference is that I've 5 focused exclusively on a forward-looking risk premium 6 for the equity risk premium, and I've derived that using 7 a DCF model to back into the expectation -- 8 Q. Okay. 9 A. -- for the overall market. 10 Q. So those are the two biggest factors, in your 11 view, that produce such a wide range of results? 12 I don't want to spend a lot of time on CAPM, 13 because I think each of you largely discount the use of 14 CAPM in today's environment, right? 15 A. (By Mr. Parcell) I certainly do, yes. 16 A. (By Mr. Strunk) As do I, yes. 17 Q. And let's get to that for a minute, because that 18 revolves around monetary policy at the central banks of 19 this country and other countries around the world. And 20 I've been in so many rate case hearings where you come 21 before us, and other capital witnesses, and say, this is 22 a very unusual, abnormal situation, and it's going to 23 come back to normal pretty soon, meaning the Federal 24 Reserve is going to raise interest rates. 25 And I think you cite that in your testimony,</p>
Page 256	Page 258
<p>EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU256</p> <p>1 CAPM, you did a CE, a comparable earnings analysis. The 2 only difference is that you did an RP, a risk premium, 3 and you did not, correct? 4 A. (By Mr. Parcell) Correct. 5 Q. So Mr. Strunk, your CAPM result of 9.29 percent 6 is significantly hire than Mr. Parcell's result -- which 7 you just amended, I know -- which ranges from 6.7 to 8 6.9 percent. 9 Can you explain that, or give -- give me any 10 thoughts both on the beta, the risk-free rate, which is 11 the long-term treasury rate? I mean, why are they -- 12 that's a pretty significant difference. It's over 13 two -- it's almost 300 basis -- 250 basis points. 14 So why don't I start with you, Mr. Strunk. 15 A. (By Mr. Strunk) I don't have Mr. Parcell's 16 analysis in front of me, but I do recall from my 17 rebuttal testimony that there were several issues with 18 Mr. Parcell's analysis. And the primary issue that's 19 going to explain most of that difference is the use 20 of -- is the use -- the choice of the equity risk 21 premium. 22 Q. Okay. 23 A. And Mr. Parcell has used a geometric mean, 24 historic geometric mean, and all of the academic 25 literature out there is very clear that the historic</p>	<p>EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU258</p> <p>1 Mr. Strunk, that we are headed for a period of higher 2 interest rates, do you not, either in your direct or 3 your rebuttal? 4 A. (By Mr. Strunk) Yes, I do. And the size of the 5 monetary stimulus has been so massive, it's not very 6 easy for the -- for the Fed to unwind it. So the Fed 7 has indicated that it will unwind it, it will unwind it 8 gradually, and that process has begun. 9 It's not an easy process, because the Fed bought 10 four trillion dollars in capital market assets. It's 11 had seven years of extraordinary interest rate policy at 12 near zero rates, so that's not an easy thing to unwind. 13 And while, yes, the expectation has been that 14 they would unwind it faster; in practice, it hasn't been 15 possible. 16 Is the expectation still that they're going to 17 unwind it? Yes. And that's very clear in the most 18 recent -- 19 Q. Right. 20 A. -- statements of -- 21 Q. So in your direct testimony, I think which was 22 written last fall, you said that it is more than likely 23 that in 2016, the Fed will gradually increase the 24 federal funds rate four times at 25 basis points, 25 somewhere in the range of about a full hundred basis</p>

Page 259

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU259

1 points or a percentage. And in fact, there's only been
 2 one 25-basis point increase in December last year, and
 3 everything that I've been reading in the newspapers
 4 indicates that they're on hold.

5 So I guess my question to you is, how much
 6 credibility should we put in your projections -- or even
 7 I'd like to hear from you, Mr. Parcell -- on any
 8 projection of an economist for a one- or two-year rate
 9 plan about increasing normalization by the Fed?

10 A. (By Mr. Strunk) Just to clarify for the record,
 11 if you could point me to the page of my direct testimony
 12 that you're referring to.

13 Q. I will in a minute, but -- but why don't you
 14 proceed first.

15 A. Well, it's true that there's only been one rate
 16 hike so far, but even in my rebuttal testimony, the
 17 message we're getting from Fed officials is that there
 18 will continue to be a gradual normalization of rates.
 19 And that normalization is, given the intent to do so
 20 gradually, is going to take years.

21 Q. And Mr. Strunk, you were correct to -- referring
 22 to your direct testimony, it's KGS-1T, you do not
 23 actually say that, but you do say -- it's on page 5 and
 24 6 -- and I think you -- on page 5, line 20, you say,
 25 "Today, as it was one year ago, capital market analysts

Page 260

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU260

1 are projecting an increase in long-term buy yields over
 2 the coming years."

3 That's what you said?

4 A. Yes.

5 Q. But you do -- you do state now on the record
 6 that there's been only one 25-basis point increase by
 7 the Fed?

8 A. That's correct. And in my rebuttal testimony, I
 9 do refer to a statement of a Federal Reserve official
 10 who expected to push for rate increases in both April
 11 and June, and the decision was to hold rates --

12 Q. Right.

13 A. -- in April, so --

14 Q. And before we go to Mr. Parcell, Mr. Strunk, you
 15 still stand by your projection -- I forget which exhibit
 16 it is -- for the 30-year Treasury, the risk-free rate of
 17 3.09 percent, even though, again, subject to check, the
 18 30-year -- the 30-year volume last week was in the range
 19 of about 2.7 percent?

20 A. Just so the record is clear, that is not my
 21 projection. My job is to read the capital markets, and
 22 that is the projection of -- it's -- that is the average
 23 projection of a number of analysts that are following
 24 the bond markets, and that's their prediction, yes.

25 Q. Right. But if it were 2.7 instead of 3.09, that

Page 261

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU261

1 would result in a CAPM analysis even lower than yours,
 2 correct?

3 A. I had used the SPOK rates, so I didn't use a
 4 projected --

5 Q. Oh, you didn't?

6 A. -- CAPM.

7 Q. Okay. Good.

8 Mr. Parcell, on the question of the Fed, the
 9 general monetary policy, and what the Commission should
 10 rely on through this Company.

11 A. (By Mr. Parcell) Sure. I have several things.
 12 The problem is, we don't know what normal is anymore.
 13 What we used to think of as normal is just not normality
 14 anymore. I mean, my 95-year-old father looks to his
 15 economics son for advice on how to invest in his CDs,
 16 and I've been telling him for five years, wait a year.
 17 He's still getting --

18 (Interruption by the reporter.)

19 MR. PARCELL: But if you look at utilities,
 20 for example, in November of 2015, one month before the
 21 Fed raised the short-term rate the first time, the only
 22 time, the yield on single A utility bonds was
 23 4.4 percent. In March, it was 4.16. So people assumed,
 24 probably rightfully so at that time, that when the Fed
 25 started raising short-term rates, long-term rates would

Page 262

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU262

1 go up, but they didn't. They went down.

2 There are other factors involved. I mean,
 3 the world is teetering on a recession. Parts of the
 4 world are in a recession. Those are factors that
 5 influence interest rates. So we can't assume that the
 6 old normality exists.

7 Let me give you a perfect and timely
 8 example. I belong to a professional society called the
 9 Society of Utility and Regulatory Financial Analysts.
 10 That's SURFA, S-U-R-F-A. It's a trade association --
 11 well, not a trade association -- it's a professional
 12 association of cost of capital witnesses.

13 We had our annual forum last week, and one
 14 of our speakers was John Lonski, L-O-N-S-K-I, who is the
 15 chief -- chief capital market economist of Moody's. And
 16 I'm not gonna tell you what he predicted because that
 17 would be hearsay, but I am gonna tell you about a table
 18 he put -- he gave us.

19 He compared the Blue Chip consensus forecast
 20 of ten-year Treasury yields for the period 2016 to '22,
 21 so that period --

22 BY COMMISSIONER JONES:

23 Q. Um-hmm.

24 A. (By Mr. Parcell) -- he compared the projections
 25 made in 2011, after we come out of the recession, and

Page 263

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU263

1 the projections he made today for the same period, and
 2 those projections of ten-year Treasury bills -- or
 3 bonds -- have gone down two percent or two hundred basis
 4 points in that period of time.

5 That was a consensus forecast of economists for
 6 the same future period, just five years apart, and the
 7 forecast for that same period has dropped from a
 8 projection estimate of 5.4 percent as of 2011 to 3.4 in
 9 2016.

10 So even people who are paid to forecast over the
 11 last several years have reduced their expectations of
 12 future interest rates, at the same period of time when
 13 the Fed was buying trillions of dollars worth of bonds.

14 So there's no way that the Feds will be able to
 15 dump those bonds on the market even if they wanted to.
 16 Of course, they're getting rich on the interest in the
 17 meantime.

18 So we don't know what the normal is anymore --
 19 **Q. Right.**
 20 A. -- but they -- clearly the expectations of
 21 interest rates have come down substantially in the past
 22 five years.
 23 **Q. So it's up to the informed judgments of the**
 24 **three commissioners and our advisors to make that**
 25 **judgment call if we accept a rate plan of two years, or**

Page 264

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU264

1 **even one year? That's what it comes down to?**
 2 A. Correct.
 3 **Q. Because you're saying SURFA, some of the best**
 4 **forecasters, or reputed national experts in this,**
 5 **haven't gotten it right, even during a period of an**
 6 **economic cycle that's going up? This is during a period**
 7 **of recovery --**
 8 A. Right.
 9 **Q. -- when rates usually go up --**
 10 A. Right.
 11 **Q. -- not down, right?**
 12 A. Yeah. Not only were rates coming down, but the
 13 expectation of future rates is less.
 14 **Q. Yeah. Okay. Well, enough on that. I think we**
 15 **could speculate all day about what Janet Yellen's going**
 16 **to do and we're never gonna get anywhere so --**
 17 A. That's true.
 18 **Q. Well, let's talk about the hypothetical capital**
 19 **structure, and Mr. Strunk, back to you.**
 20 **If you could turn to page 12 of your rebuttal**
 21 **testimony, KGS-19T.**
 22 A. (By Mr. Strunk) Yes.
 23 **Q. And again, this is plowing old ground. I think**
 24 **both you and Mr. Williams made similar testimonies in**
 25 **the last case when you asked us to make an upward**

Page 265

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU265

1 **adjustment to ROE if we maintain the capital structure**
 2 **at 49.1 percent, a hypothetical capital structure,**
 3 **right?**
 4 A. Yes. That's simply the application of the
 5 financial principle that, if you bear more financial
 6 risk, you have a higher --
 7 **Q. Right.**
 8 A. -- cost of equity. Any cost of capital witness
 9 will testify to that.
 10 **Q. I think your counsels passed each of you before**
 11 **lunch a copy of the Court of Appeals decision in the**
 12 **State of Washington, Division II, that just came out**
 13 **last week.**
 14 **Do you have a copy of that?**
 15 A. (By Mr. Parcell) Yes, sir.
 16 COMMISSIONER JONES: And I would like to
 17 enter this into the record if there are no objections.
 18 JUDGE FRIEDLANDER: I'll take official
 19 notice.
 20 COMMISSIONER JONES: Thank you.
 21 BY COMMISSIONER JONES:
 22 **Q. If you could turn to page 35 of 39, let's go to**
 23 **page -- well, page 35 to 39 of that Appellate Court**
 24 **decision, Mr. Strunk, deals with this issue pretty**
 25 **directly. I think it's fair to say that the Commission**

Page 266

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU266

1 **won pretty soundly on all points related both to QFs and**
 2 **capital structure, but this mainly is capital structure.**
 3 **But if you could just turn to page 39 at the**
 4 **middle, on there it states, "PacifiCorp's challenge to**
 5 **the Commission's discussion of the effect of a**
 6 **hypothetical capital structure on its credit rating**
 7 **fails."**
 8 **Do you see that?**
 9 A. (By Mr. Strunk) Yes, I do. It's just under the
 10 rubric No. 3.
 11 **Q. So I guess my question to you is, what is the**
 12 **relevance of all of your testimony on pages 10 through**
 13 **13 on such an adjustment and hypothetical capital**
 14 **structure if, in fact, the highest court in the state of**
 15 **Washington has affirmed -- not the highest, but the**
 16 **second highest, according to the state of Washington,**
 17 **has affirmed the Commission's 2013 decision, and before,**
 18 **of the use of a hypothetical cap structure?**
 19 A. And -- absolutely. Just to clarify, that my
 20 testimony was designed to be rebuttal to Mr. Parcell's
 21 testimony. The Company is not proposing any changes to
 22 any element of the rate of return. So --
 23 **Q. Right.**
 24 A. -- the Company is willing to live with the
 25 existing hypothetical capital structure, the existing

Page 267

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU267

1 allowed ROE and the existing debt rate.

2 The purpose of this testimony was to respond to

3 certain statements in Mr. Parcell's testimony.

4 **Q. Well, I understand that. But I guess my**

5 **question to you is, why did you -- other than that, why**

6 **did you include it in your testimony, realizing that the**

7 **Commission had already rejected that, both implicitly**

8 **twice, and then you -- you spend another three,**

9 **four pages on it in this testimony, and now we have an**

10 **Appellate Court decision where basically they said the**

11 **Company was not correct and it's failed in all of its**

12 **arguments.**

13 A. Right. Now, I didn't -- I didn't submit

14 evidence. I'm not in the docket --

15 **Q. Okay.**

16 A. -- that was appealed. I'm not familiar with the

17 record. I'm not --

18 **Q. Okay.**

19 A. I think we have a different record in every

20 case, and the decisions are based on the record in each

21 case.

22 **Q. So what you're advocating is just more of an**

23 **academic or a theoretical point, that in capital**

24 **structure theory, or a cost of capital theory, that a**

25 **hypothetical capital structure both is not fair -- and I**

Page 268

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU268

1 think even when we look at what you say in your -- in

2 your testimony, lines 15 through 16, you say [as read],

3 "The imputation of a hypothetical equity ratio that is

4 below a utility's actual ratio is, quote, tantamount to

5 a disallowance of costs if the ROE is not adjusted to

6 reflect a higher level of leverage."

7 So is that a statement that's academic,

8 theoretical in nature, or are you making it specifically

9 for PacifiCorp here?

10 A. It's academic, because the Company has not

11 requested a change in this -- in its cost of capital.

12 It's a principle that all cost of capital witnesses

13 recognize.

14 **Q. Okay. Mr. Parcell, I'd just like you to**

15 **briefly -- and let's not spend too much time on this, I**

16 **think the Court opinion is pretty clear on this -- but**

17 **do you have any concerns with his use of this**

18 **theoretical, or this academic adjustment of ROE to**

19 **reflect a hypothetical cap structure?**

20 A. (By Mr. Parcell) No, because I show on my page

21 19 of DCP-1T the -- the average equity ratios of all of

22 the companies, that is, electric and combination

23 gas/electric, that are covered by AUS Utility Reports,

24 is less than 50 percent. So I mean, that's --

25 **Q. Okay.**

Page 269

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU269

1 **A. -- an equity ratio in the high -- high 40s is --**

2 **is not unusual.**

3 **Q. Okay. And --**

4 A. (By Mr. Strunk) Commissioner, for the record, I

5 did rebut that statement and provided evidence --

6 **Q. Yes, you did --**

7 A. -- on --

8 **Q. -- which I think you did in several of your**

9 **exhibits.**

10 **And I think your source of data on that one is**

11 **AUS, is it not?**

12 A. (By Mr. Parcell) That's right.

13 **Q. Let's get to the -- finally this issue of the**

14 **impact, if any, of these new ratemaking mechanisms,**

15 **relatively new from this company, the ERF, decoupling**

16 **and the two-year rate plan, and the impact, if any, on**

17 **the ROE.**

18 **Mr. Parcell, in your testimony -- and I think**

19 **there are two cross-exhibits on this. I don't know if**

20 **there is going to be any cross, but I think we discussed**

21 **this in the last couple of cases as well.**

22 **But what is your present position on this? As I**

23 **read your testimony -- and let me get to it. I think**

24 **it's at the last part of DCP -- yeah, it's on page 36 of**

25 **your testimony, lines 13 through 19.**

Page 270

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU270

1 **And are you there?**

2 A. Yes.

3 **Q. So you say that, as such mechanisms are becoming**

4 **more common, you're not recommending any specific**

5 **downward adjustment to PacifiCorp's ROE. On the other**

6 **hand, I believe that potential -- quote, potential**

7 **adoption of these mechanisms is risk-reducing to**

8 **PacifiCorp.**

9 **It seems to me you're trying to straddle a**

10 **middle ground there with your client, and I don't**

11 **understand exactly what you're saying.**

12 **Are these risk-reduction mechanisms or not that**

13 **should be reflected in ROE?**

14 A. Well, let's read between the lines here.

15 Since the last PacifiCorp I was in, I've also

16 testified in the Puget rebate case. And it became

17 apparent in the Puget case that the Commission's

18 philosophy there was, let's institute decoupling, give

19 it three years, and then evaluate what the impact upon

20 risk [sic].

21 So when I prepared my testimony in this case, I

22 did not want to put myself in a position, or put the

23 Staff in a position of appearing to recommend a lower

24 return now because of it, so that's why I went to

25 mid-point.

Page 271

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU271

1 Now, there are lots of kinds -- or types or

2 kinds of regulatory mechanisms. And the best two from a

3 utility standpoint are decoupling and formula-based --

4 formula-based rates with true-ups. Those are far and

5 above the better of the two.

6 And in Mr. Strunk's rebuttal testimony, he did

7 a -- prepared a schedule, or an exhibit, it's KCS-37

8 [sic].

9 **Q. Yeah, I'm there.**

10 A. And what he did, he took the companies from his

11 proxy group -- no, my proxy group -- my proxy group --

12 and showed the various mechanisms. Now, these include

13 both gas and electric --

14 **Q. Right.**

15 A. -- but I'll observe, in the column for full

16 decoupling, there are 27 possible cases of decoupling

17 being effective -- the 27 companies, states,

18 subsidiaries listed here. Of those 27, only 5 have full

19 decoupling. So from a -- and these include gas.

20 **Q. Only -- say that again, because I was going to**

21 **ask Mr. Strunk about this exhibit and other exhibits,**

22 **but only five have full decoupling?**

23 A. Five of twenty-seven, yes.

24 **Q. Five of twenty-seven?**

25 A. So of the big kahunas, so to speak, from a risk

Page 272

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU272

1 standpoint, only 5 of 27 have it now. So it's coming,

2 but it's not uniform at this point in time. So when you

3 look at a proxy group and their existing mechanisms,

4 relatively few, less than 20 percent, have full

5 decoupling.

6 **Q. And Mr. Parcell, let's not -- full decoupling**

7 **and partial decoupling, I think you've read our policy**

8 **statement -- both of you have read our policy statements**

9 **on decoupling of -- I think it was 2012 -- haven't you,**

10 **where we describe partial and full decoupling?**

11 A. It's been a while, but yes.

12 **Q. Okay. Mr. Strunk, have you read that?**

13 A. (By Mr. Strunk) A while ago as well, yes.

14 **Q. Yeah. We've had a 20-year conversation of**

15 **decoupling on this Commission. We've been discussing it**

16 **a long, long time.**

17 **But the other thing is that this table and**

18 **Mr. Strunk's other tables do not deal with the other**

19 **design elements of a decoupling mechanism, such as a**

20 **soft rate cap, deferral mechanisms, those sorts of**

21 **things, right?**

22 A. (By Mr. Parcell) Yes. In Mr. Strunk's defense,

23 he's used an S & L financial document, which I have

24 myself, and that was -- this is the information they

25 provided in that document. So this -- this was --

Page 273

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU273

1 appears to be the best available information at this

2 point in time to compare various utilities and various

3 adjustment mechanisms.

4 **Q. Okay.**

5 **Mr. Strunk, I'll -- the -- before I go to**

6 **Mr. Strunk on this -- Mr. Parcell, so your ultimate**

7 **recommendation is still an ROE of 9.25 percent. That**

8 **reflects the totality of both capital market conditions**

9 **in -- today and over this rate period of two years, and**

10 **given the ERF, decoupling, taking all of that into**

11 **impact, your ultimate recommendation is 9.25 percent?**

12 A. That's right, which is the mid-point of the

13 range, yes.

14 **Q. Okay. Mr. Strunk, so on this issue of expedited**

15 **rate filing, decoupling and a two-year rate plan,**

16 **these -- this is on page 14 to 19 of KGS-1T of your**

17 **direct testimony, and I may have a few questions on it.**

18 **But what is your response to Mr. Parcell and**

19 **what he just said, first, if you have any?**

20 A. (By Mr. Strunk) Yes, I have another -- a number

21 of points of response.

22 CHAIRMAN DANNER: I'm sorry, Commissioner.

23 What pages?

24 COMMISSIONER JONES: Fourteen to nineteen of

25 his direct, of KGS-1T.

Page 274

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU274

1 MR. STRUNK: So Mr. Parcell has looked at it

2 from the operating company level, from the holding

3 company level. All of the holding companies have at

4 least one operating subsidiary that has decoupling in

5 place. So when the investment community looks at that,

6 they see that that holding company has a subsidiary with

7 decoupling.

8 The other thing is that, in some states, you

9 really don't need decoupling because they have symmetric

10 earnings bands, right? If you have a symmetric earnings

11 band that protects you in the case -- in the event that

12 your sales fall off and your earnings go down, then

13 you're protected. You don't need an explicit decoupling

14 mechanism.

15 BY COMMISSIONER JONES:

16 **Q. Right.**

17 A. (By Mr. Strunk) So the specific -- it's very

18 difficult --

19 **Q. Right.**

20 A. -- to make apples-to-apples comparisons of these

21 programs across utilities and across jurisdictions.

22 **Q. But -- but your overall position is still, as it**

23 **was in the last case, I think, that all of these**

24 **mechanisms, or most of these mechanisms are, quote,**

25 **"baked in" into the cost of capital analysis and the ROE**

Page 275

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU275

1 **analysis?**

2 A. Yes. The existence of risk-mitigating

3 mechanisms such as decoupling are baked in. And the

4 other point that I make in my testimony is that analyses

5 of the effect of decoupling on the cost of equity have

6 not shown any -- any effects.

7 So I myself have studied the market reaction to

8 news of decoupling, and if the investors were really

9 discounting future cash flows at a lower cost of

10 capital, then the news of decoupling would cause the

11 stock to go up. And we don't see that when we -- when

12 we --

13 **Q. Okay.**

14 A. -- set up event studies that isolate the -- the

15 news and the effects on stock prices.

16 **Q. Just a couple of questions and then I'll finish**

17 **on decoupling and the actual impact of a rate plan.**

18 **So let's turn to KGS -- what is this -- KGS-18,**

19 **your exhibit where you -- Mr. Parcell referred to**

20 **something in your rebuttal testimony where you did a**

21 **comparison. I'm going to go to the analysis in your**

22 **direct testimony. And in here, you look at the various**

23 **types of adjustment causes.**

24 **So are you there?**

25 A. Yes, I'm with you.

Page 276

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU276

1 Q. So on Avista -- let's just go down to Avista.

2 Are you familiar with the design of their decoupling

3 program? I -- you have it marked here as full

4 decoupling.

5 A. Yes. That's how it was summarized by Regulatory

6 Research Associates.

7 **Q. Are you familiar with how it's structured with a**

8 **rate cap in earnings? Are you familiar with earnings**

9 **sharing mechanisms?**

10 A. Yes.

11 **Q. Okay.**

12 A. The asymmetric one that accompanies this

13 decoupling mechanism.

14 **Q. Right.**

15 A. There are also symmetric ones in place in other

16 states.

17 **Q. And by the way, while we're on Avista, I'm just**

18 **a little curious, Mr. Strunk, why you have a dash or a**

19 **no checkmark on Avista for Conservation Program Expense.**

20 **It's my understanding that we fully compensate them**

21 **through the tariff for any conservation expenses, and**

22 **you have it blank.**

23 A. The -- the data that I've presented here is

24 sourced from a Regulatory Research Associates --

25 **Q. Oh, from RRA?**

Page 277

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU277

1 **A. -- report.**

2 **Yes. And that is how RRA characterized it.**

3 **Q. Okay. Um-hmm. Go back to -- that's a separate**

4 **discussion.**

5 **So are you familiar at all -- so I understand**

6 **all these checkmarks, and it's -- it sounds like you and**

7 **Mr. Parcell disagree on what is full and partial**

8 **decoupling, on his proxy group at least.**

9 **Mr. Parcell, have you had a chance to look at**

10 **his proxy group to see if his characterization of full**

11 **and partial decoupling is accurate?**

12 A. (By Mr. Parcell) We've used the same -- I mean,

13 he -- I did an analysis myself, of my own proxy group

14 myself just compared to the one he did on his rebuttal,

15 and I got the same results. So I presume he's recorded

16 information properly from the source. I don't dispute

17 that.

18 **Q. Okay.**

19 A. I didn't check them one-by-one, but I give him

20 credit for doing that right.

21 **Q. I guess my final question to you, Mr. Strunk,**

22 **is, okay, this chart is fine in KGS-18, but have you**

23 **actually -- have you taken it to the next step and**

24 **actually analyzed what the actual effects of decoupling**

25 **are in both a subsequent rate year, the creation of a**

Page 278

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU278

1 **deferral account if a rate cap is hit?**

2 **Have you looked at things like that to see how**

3 **it actually works in practice at a Commission like ours?**

4 A. (By Mr. Strunk) Well, I've certainly reviewed

5 the proposal that's on the table in this docket. And I

6 recognize that there are deferrals, there are talks of

7 potential thresholds that have to be made to --

8 **Q. Right.**

9 A. -- to --

10 **Q. No, that's not my question.**

11 **But my question is, for specifically Avista and**

12 **Puget, we've authorized full electric and gas**

13 **decoupling. We've had rate cases, we've had reports to**

14 **the Commission.**

15 **And you made one, subject to check, but for**

16 **Avista, in the last rate case, they actually earned in**

17 **the second year of a rate plan -- this is more of a rate**

18 **plan issue than decoupling -- but they earned 30 to**

19 **40 basis points over their authorized ROE.**

20 **Last week we had an open meeting at the**

21 **Commission in a docket with PSE, and PSE is building up**

22 **significant deferrals, especially on the gas side -- on**

23 **both sides -- so they're over-earning, excessive**

24 **earnings on both gas and electric, and they're building**

25 **up a deferral on both sides of the operation.**

Page 279

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU279

1 **So I just wanted to know if you were aware of**
 2 **that, if you're aware of the actual operation in other**
 3 **states as well, that you cite in KGS-18.**
 4 A. Well, my area of focus has really been on how
 5 investors value decoupling and whether there's any
 6 effect on the cost of equity.
 7 I would agree with what the Commission found in
 8 the Puget remand case, that it's very difficult to sort
 9 of do a -- what is ultimately a subjective assessment of
 10 how the different risk mitigators affect the rate of
 11 return.
 12 The factual circumstances that you've cited are
 13 ones that are the product of a confluence of events
 14 that, you know, it could certainly go the other way.
 15 And there's no protection for company investors under
 16 the Washington decoupling mechanisms for actual returns
 17 that fall below the authorized rate of return, and there
 18 is protection for customers, and sharing above that
 19 rate.
 20 So no, I haven't examined everything that has
 21 happened in each of the states. I know that other
 22 states do have deferrals, but I can't -- I can say I've
 23 studied the equity markets and I've studied how the
 24 equity markets respond to decoupling, and there's really
 25 no --

Page 280

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU280

1 Q. Okay.
 2 A. -- evidence that decoupling changes the cost of
 3 equity.
 4 **Q. I understand that. And -- and to be fair, I**
 5 **didn't mean to put you on the spot too much, but**
 6 **weather -- as you can imagine, on the gas side, a warmer**
 7 **than normal weather has a lot to do with under-earning**
 8 **or perhaps not collecting as much revenue on certain**
 9 **things.**
 10 **Now, Mr. Parcell, before we end up here, I have**
 11 **one final question.**
 12 **Do you have any comments on what I just asked**
 13 **Mr. Strunk?**
 14 A. (By Mr. Parcell) Um, I sort of approach it the
 15 same way he does it, from the standpoint of, are these
 16 mechanisms useful to utilities.
 17 And in fact, on January the 29th, 2014, Moody's
 18 raised the long-term credit rating of virtually every
 19 gas and electric utility in this country, primarily
 20 because of the various suite of regulatory mechanisms
 21 available to them.
 22 That's a real -- never in the history of
 23 regulation have I heard of any agency changing the whole
 24 industry in one fell swoop up. So obviously Standard
 25 and Poor's and the rating agency saw the benefits of

Page 281

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU281

1 these various mechanisms.
 2 And just to make sure that we're on the same
 3 page here, if every one of my proxy group companies had
 4 decoupling, then the mid-point of the range represents
 5 their cost of capital, and that's what I'm recommending.
 6 **Q. Which is 9.25 percent?**
 7 A. That's right.
 8 **Q. Okay. So my final question and then I'm done**
 9 **is, of the various methodologies each of you use, which**
 10 **should the Commission put more weight on? I've asked**
 11 **you this before. I think you probably saw this coming.**
 12 **Should we put generally more weight, as we have**
 13 **done in the past, on DCF? Or both of you seem to be**
 14 **saying we should not put that much weight on CAPM, and**
 15 **then put it on comparable earnings, and for you,**
 16 **Mr. Strunk, on ROE.**
 17 **So why don't we start with you, Mr. Parcell.**
 18 A. I think historically, DCF has been the most
 19 widely-utilized method. The DCF results the last year
 20 or so have been a little lower than other -- than, say
 21 comparable earnings, and that's why I only focus on the
 22 top end of my DCF results. I don't use any of the
 23 medians, just -- the averages. Just the top end is what
 24 I focus on to account for that.
 25 The comparable earnings is not as quick to

Page 282

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU282

1 change results-wise compared to the -- compared to the
 2 other methodologies. So I think that's a good
 3 foundation, if you will. That's why I like comparable
 4 earnings. Mr. Strunk and I are two of the few people
 5 that use comparable earnings.
 6 **Q. And CAPM, don't give them much weight in this**
 7 **case?**
 8 A. Not now -- for a long time, I would get my
 9 highest results from CAPM. But the impact of the Fed on
 10 interest rates and the resulting premiums over the last
 11 few years causes me to give fewer -- less weight to CAPM
 12 at this time. And at my age, I'll probably never get --
 13 we don't use it much, because it's -- at my age, I
 14 probably never will, because it's not going to come back
 15 any time soon, and I'm going away soon.
 16 **Q. Mr. Parcell, we could have another OPEC oil**
 17 **embargo, oil could go shooting out of the Bronx and the**
 18 **rate could go up to eight percent again.**
 19 A. It could, but don't bet the farm on it. But it
 20 could.
 21 **Q. So CAPM might be used --**
 22 A. I'm hanging on the wind with it. I'm giving it
 23 a shot.
 24 **Q. Okay. Mr. Strunk?**
 25 A. (By Mr. Strunk) Well, let me preface the

Page 283

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU283

1 response with the -- if the Commission were adjudicating
 2 an ROE result, if the Company were asking for a change
 3 in the recommendation, then I believe that it would be
 4 useful to look at all models with the recognition that
 5 the 15 trillion in central market -- central bank market
 6 interventions has had major effects on the capital
 7 markets. And that the -- even the Bank of Japan has
 8 become a top-ten holder of ninety percent of the equity
 9 shares that are traded in the Nikkei 225. So we're --
 10 we're dealing with a very different market.

11 But I think, taking that into consideration, you
 12 can look at all of the models and give less weight to
 13 those that appear to be most affected by the anomalous
 14 conditions. But the Company hasn't asked for a
 15 fully-adjudicated cost of capital result. They've asked
 16 to keep the --

17 **Q. Right.**
 18 A. -- the same cost of capital.

19 And the evidence that Dr. -- that Mr. Parcell
 20 and myself put before you would tend to confirm that
 21 that's a reasonable request in light of what's happened
 22 since the last two rate cases.

23 COMMISSIONER JONES: Thank you both. I'm
 24 done.

25 MR. PARCELL: Thank you.

Page 284

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU284

1 MR. STRUNK: Thank you.
 2 JUDGE FRIEDLANDER: Thank you.
 3 CHAIRMAN DANNER: I have no questions.
 4 JUDGE FRIEDLANDER: Okay. Thank you. All
 5 right. Unless anybody has anything else for you, I
 6 believe you both are -- you're excused. And thank you
 7 very much for your testimony.

8 MR. PARCELL: Thank you.
 9 MR. STRUNK: Thank you.
 10 JUDGE FRIEDLANDER: I believe Mr. Vail is
 11 the next on our cross list.

12 MS. MCDOWELL: That's correct, your Honor.
 13 JUDGE FRIEDLANDER: Thank you.
 14 All right. Mr. Vail, if you'll raise your
 15 right hand.

16
 17 RICHARD A. VAIL, witness herein, having been
 18 first duly sworn on oath,
 19 was examined and testified
 20 as follows:

21
 22 JUDGE FRIEDLANDER: Thank you. You can be
 23 seated.
 24 Ms. McDowell?
 25 MR. LOWNEY: This is Adam Lowney on behalf

Page 285

EXAMINATION BY MR. LOWNEY / VAIL

1 of Pacific Power.
 2 JUDGE FRIEDLANDER: Thank you.
 3 *** EXAMINATION BY MR. LOWNEY ***
 4 BY MR. LOWNEY:
 5 **Q. Mr. Vail, could you please state and spell your
 6 name for the record?**
 7 A. Yes. It's Rick Vail, that's V-A-I-L.
 8 **Q. And how are you employed, Mr. Vail?**
 9 A. I am the vice president of transmission at
 10 PacifiCorp.
 11 **Q. And in that capacity, have you filed testimony
 12 in this case, which is labeled Exhibit No. RAV-1T
 13 through 3T?**
 14 A. Yes, I have.
 15 **Q. And do you have any corrections to your
 16 testimony today?**
 17 A. I do not.
 18 **Q. And if I were to ask you the same questions that
 19 is [sic] reflected in that testimony, would your answers
 20 be the same?**
 21 A. Yes, they would.
 22 MR. LOWNEY: Mr. Vail is available for
 23 cross-examination.
 24 JUDGE FRIEDLANDER: Thank you.
 25 Ms. Cameron-Rulkowski?

Page 286

EXAMINATION BY MS. CAMERON-RULKOWSKI / VAIL

1 MS. CAMERON-RULKOWSKI: Thank you,
 2 your Honor.
 3 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***
 4 BY MS. CAMERON-RULKOWSKI:
 5 **Q. Good afternoon, Mr. Vail.**
 6 A. Good afternoon.
 7 **Q. I'd like to ask you to refer to your rebuttal
 8 testimony, and this is RAV-3T, page 5. And I'm looking
 9 at lines 5 through 6 in particular.**
 10 A. Okay. I'm there.
 11 **Q. Here you're discussing the ownership of the Jim
 12 Bridger-Goshen line.**
 13 **Is that how you pronounce that, by the way?**
 14 A. That's correct, yeah.
 15 **Q. Thank you. And there on lines 5 to 6, you refer
 16 to certain outage conditions.**
 17 A. Yes, I do.
 18 **Q. What are those outage conditions?**
 19 A. It can actually be a number of different lines.
 20 One of the probably best things to look at would be the
 21 map that I provided in my direct testimony. It's
 22 Exhibit No. RAV-2. I'm looking at page 2 of 2.
 23 **Q. All right. I'm with you.**
 24 A. Okay. So prior to the asset exchange,
 25 PacifiCorp had ownership of the Bridger to Populus to

Page 287

EXAMINATION BY MS. CAMERON-RULKOWSKI / VAIL

1 Borah and Brady, and you can kind of see there are two
 2 green lines there. Those are two 345 kV transmission
 3 lines.
 4 Prior to the asset exchange --
 5 CHAIRMAN DANNER: Excuse me. Since we don't
 6 have color on our --
 7 THE WITNESS: Oh, I apologize.
 8 CHAIRMAN DANNER: -- copies, you might have
 9 to go a little slower while we track.
 10 THE WITNESS: Okay. I will do that. So
 11 let's just orient ourselves here just a little bit.
 12 The Jim Bridger plant is in Wyoming, and in
 13 this case, I'm looking at kind of the middle of the
 14 right-hand side of the page. And so what I'm doing is
 15 going from Jim Bridger plant and basically going from
 16 East to West. So how do we get from basically Wyoming
 17 over to Washington customers?
 18 So in this case, prior to the asset
 19 exchange, PacifiCorp owned the Bridger to Populus -- you
 20 can see there's two lines there -- and then also
 21 ownership from Populus over to the Borah substation.
 22 After the asset exchange, PacifiCorp now has the ability
 23 to and has ownership on all three of those lines.
 24 So in the past, any outage of either the --
 25 either one of those Bridger to Populus to Borah lines

Page 288

EXAMINATION BY MS. CAMERON-RULKOWSKI / VAIL

1 would have created a situation where PacifiCorp could
 2 not get all of the generation it owned out of the Jim
 3 Bridger plant out to the West.
 4 BY MS. CAMERON-RULKOWSKI:
 5 **Q. So what did the Company actually -- well, have**
 6 **those two lines ever gone down?**
 7 A. Yes, they certainly have. And you know, one
 8 thing with the transmission lines to kind of keep in
 9 mind, the idea is to make sure that you're reliably
 10 serving customers. And even if there's an outage on one
 11 line, you still want to make sure that when people flip
 12 the switch on, so to speak, that their power does come
 13 on. So yes, we have had outages on those lines in the
 14 past.
 15 And it's important to note, they're hundreds of
 16 miles long. Some of them are out in, you know,
 17 basically the middle of nowhere. Wyoming is the least
 18 populous state in the country, and we do have issues
 19 with hunters shooting out insulators, but also weather.
 20 Wyoming does have some pretty extreme winds that can
 21 cause outages on those lines.
 22 **Q. So have both of them ever gone down?**
 23 A. Yes, there have been times when both of those
 24 facilities have been down at the same time. And
 25 again -- I guess I would just step back.

Page 289

EXAMINATION BY MS. CAMERON-RULKOWSKI / VAIL

1 Even with one of those lines down, PacifiCorp
 2 did not have the ability to take all of the Jim Bridger
 3 output that it has ownership of and bring it across to
 4 the West. So there would be times where there would be
 5 limitations on the outage of the Jim Bridger plant and
 6 being able to move it to the West.
 7 **Q. So what did the Company do, then, before they**
 8 **had the ownership interest in that third line?**
 9 A. Um, well, so they -- you know, the Company's
 10 responsibility, obviously, is to serve its customers,
 11 and there are other things that the Company can do. One
 12 is go out on the market and purchase additional power
 13 over in the West. One would be to -- another option
 14 would be to go and try to find additional transmission
 15 rights or capacity from another area in order to serve
 16 the load out West. So there's a variety of options that
 17 the Company, you know, has an opportunity to resupply
 18 that power.
 19 MS. CAMERON-RULKOWSKI: Thank you. I have
 20 no further questions for Mr. Vail.
 21 JUDGE FRIEDLANDER: Thank you. Any
 22 rebuttal?
 23 MR. LOWNEY: No redirect, your Honor.
 24 JUDGE FRIEDLANDER: Okay. Thank you.
 25 Commissioner questions?

Page 290

EXAMINATION BY MS. RACKNER / MCCOY

1 CHAIRMAN DANNER: No questions.
 2 JUDGE FRIEDLANDER: Thank you, Mr. Vail.
 3 You're excused.
 4 And I believe we're up to Ms. McCoy.
 5 MS. RACKNER: That's correct, your Honor.
 6 JUDGE FRIEDLANDER: Thank you.
 7 Please raise your right hand.
 8
 9 SHELLEY MCCOY, witness herein, having been
 10 first duly sworn on oath,
 11 was examined and testified
 12 as follows:
 13
 14 JUDGE FRIEDLANDER: Thank you. You can be
 15 seated. Ms. McDowell?
 16 MS. RACKNER: Good afternoon, commissioners
 17 and ALJ Friedlander. This is Lisa Rackner from
 18 Pacific Power.
 19 *** EXAMINATION BY MS. RACKNER ***
 20 BY MS. RACKNER:
 21 **Q. Good morning, Ms. McCoy -- or excuse me, good**
 22 **afternoon.**
 23 A. Good afternoon.
 24 **Q. Could you please state and spell your name for**
 25 **the record?**

Page 291

EXAMINATION BY MS. RACKNER / MCCOY

1 **A. Sure. Shelley, S-H-E-L-L-E-Y, McCoy, M-C-C-O-Y.**

2 **Q. And how are you employed?**

3 A. I'm the manager of revenue requirement at

4 PacifiCorp.

5 **Q. And in that capacity, did you file testimony in**

6 **this case?**

7 A. Yes, I did.

8 **Q. And is that testimony and the attached exhibits**

9 **labeled as SEM-1 through 12?**

10 A. That is correct.

11 **Q. Do you have any corrections to that testimony or**

12 **exhibits?**

13 A. I do. I have one correction.

14 In my rebuttal testimony on page 24, lines 15

15 and 16, so on line 15, where it says "Schedule 96," that

16 should say "Schedule 95."

17 JUDGE FRIEDLANDER: And I'm sorry. Which

18 page, 24?

19 THE WITNESS: Page 24 of my rebuttal, yes.

20 And on line 16, that should say "Energy Adjustment

21 Revenue tariff schedule," so adding the word

22 "Adjustment" between "Energy" and "Revenue."

23 BY MS. RACKNER:

24 **Q. Thank you. And do you have any other**

25 **corrections to your testimony?**

Page 292

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 **A. I do not.**

2 **Q. So with those corrections, if I asked you the**

3 **same questions today, would your answers be the same?**

4 A. Yes, they would.

5 MS. RACKNER: Thank you. Ms. McCoy is

6 available for cross-examination.

7 JUDGE FRIEDLANDER: Thank you.

8 Ms. Cameron-Rulkowski?

9 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

10 BY MS. CAMERON-RULKOWSKI:

11 **Q. Thank you. Good afternoon, Ms. McCoy.**

12 A. Good afternoon.

13 **Q. First a question about the Idaho Asset Exchange.**

14 **Please refer to your testimony -- your direct testimony**

15 **at SEM-1T, page 11.**

16 A. Okay. I'm there.

17 **Q. And in Table 1 there, under Location**

18 **Description --**

19 A. Yes.

20 **Q. -- you list Goshen Substation and Maintenance**

21 **Shop?**

22 A. Correct.

23 **Q. Did the Company own this asset before the Idaho**

24 **Asset Exchange?**

25 A. Yes, they did.

Page 293

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 Q. Thank you. Now I'm going to move on to some

2 questions about Staff's memberships and subscriptions

3 adjustment.

4 A. Okay.

5 **Q. Please refer to your rebuttal testimony,**

6 **starting on page 12.**

7 A. Okay. I'm there.

8 **Q. Now, you discussed three organizations**

9 **associated with this adjustment, and that's the Utah**

10 **Taxpayers Association, the Wyoming Taxpayers Association**

11 **and the Yakima County Development Association; is that**

12 **right?**

13 A. That's correct.

14 **Q. All right. So starting with the taxpayer**

15 **associations, you accept Staff's removal of the expenses**

16 **associated with the taxpayer associations, right?**

17 A. We did, including the Wyoming one, even though

18 we do have WCA assets located in that state.

19 **Q. All right. Now, you stated that you accepted**

20 **the removal of the expenses only for the purpose of --**

21 **for the purposes of this proceeding; is that correct?**

22 A. That is correct.

23 **Q. All right. And I'm now going to refer you to a**

24 **cross-exhibit.**

25 **Are you there?**

Page 294

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 **A. Yes.**

2 **Q. I'm sorry. This was SEM-15CX?**

3 A. Yes.

4 **Q. And I'm looking at the response from the**

5 **Company, starting with the text, Line 241, would you**

6 **please read that first sentence?**

7 A. Sure. "The Utah Taxpayers Association strives

8 to prevent ill-conceived or unnecessary tax proposals

9 and encourages tax relief."

10 Q. Now, who is it that provides tax relief?

11 A. I'm sorry. I'm not quite understanding your

12 question.

13 **Q. Sure. Isn't it usually a body of elected**

14 **officials, for example, that grants tax relief?**

15 A. I suppose that would be true, yes.

16 **Q. And so would you agree that a State legislature,**

17 **a City or County Council or the US congress are all**

18 **examples of such bodies that can grant tax relief?**

19 A. Yes.

20 **Q. And so striving to prevent ill-conceived or**

21 **unnecessary tax proposals and encouraging tax relief**

22 **would be encouraging members of these elected bodies to**

23 **support or oppose tax proposals, correct?**

24 A. Possibly, yes.

25 **Q. How else beyond encouraging members of these**

Page 295

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 **elected bodies could the organization try to -- try to**
 2 **encourage tax relief or prevent tax proposals?**
 3 MS. RACKNER: I'm going to object. The
 4 question is compound and I'm having difficulty following
 5 the question.
 6 MS. CAMERON-RULKOWSKI: I'll attempt to
 7 rephrase.
 8 BY MS. CAMERON-RULKOWSKI:
 9 **Q. So you've accepted that striving to prevent**
 10 **ill-conceived or unnecessary tax proposals and**
 11 **encouraging tax relief means encouraging members of**
 12 **these elected bodies to support or oppose tax proposals,**
 13 **right?**
 14 A. I'm sorry. I'm still not quite understanding.
 15 Is your question getting to the basis of why we
 16 agreed with Staff to remove these?
 17 **Q. No, it isn't. It's getting to -- it's getting**
 18 **to what the purpose is of these associations. So --**
 19 MS. RACKNER: I'm going to object on the
 20 basis of relevance. Just to be clear, in response to
 21 Staff testimony, the Company agreed to remove the costs
 22 associated with these adjustments from the rate case.
 23 It's not clear to me whether Staff -- whether Staff
 24 acknowledges that fact.
 25 MS. CAMERON-RULKOWSKI: Staff does. I

Page 296

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 hadn't actually asked a question at that point, but
 2 there's a conditional acceptance here, which is for the
 3 purposes of this proceeding, and that's what I'm
 4 addressing.
 5 And ultimately, the Commission will make its
 6 decisions about whether -- about these expenses, and I'm
 7 making a record.
 8 CHAIRMAN DANNER: So just to clarify, is
 9 this -- you're making a record for another proceeding?
 10 MS. CAMERON-RULKOWSKI: No, no,
 11 Mr. Chairman. I am making a record concerning the
 12 Company's conditional acceptance, which is -- the
 13 conditional language is "for the purposes of this
 14 proceeding." And so what I'm trying to get at is, is
 15 the ultimate propriety of these expenses.
 16 CHAIRMAN DANNER: Okay. But --
 17 MS. CAMERON-RULKOWSKI: I can move on.
 18 CHAIRMAN DANNER: Yeah. I mean, because my
 19 understanding is, the condition is, is they're not going
 20 to deal with it in this proceeding. And so if they come
 21 back in another proceeding, we'll have the record in
 22 that case working where it can be challenged again if
 23 that's what Staff wants to do.
 24 MS. CAMERON-RULKOWSKI: No. We would prefer
 25 to get it taken care of in this proceeding.

Page 297

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 CHAIRMAN DANNER: All right. You're the
 2 judge.
 3 JUDGE FRIEDLANDER: I'm going to agree on
 4 the objection, and we'll just move on from here since
 5 it's not really relevant in this proceeding.
 6 MS. CAMERON-RULKOWSKI: All right.
 7 JUDGE FRIEDLANDER: Thank you.
 8 BY MS. CAMERON-RULKOWSKI:
 9 **Q. So then going onto the next -- the next**
 10 **paragraph in the response, which is Line 271, and this**
 11 **is a description of the Wyoming Taxpayers Association,**
 12 **and it states there that the "Association promotes**
 13 **efficient and effective government through independent**
 14 **and unbiased analysis of public expenditures and**
 15 **taxation policies, coupled with wide dissemination of**
 16 **these analyses."**
 17 **And my question is, who receives these analyses?**
 18 MS. RACKNER: And I would make the same
 19 objection. The Company, I believe, accepted adjustments
 20 with respect to both sets of costs, both for the Utah
 21 Taxpayers Association and the Wyoming Taxpayers
 22 Association.
 23 JUDGE FRIEDLANDER: Ms. Cameron-Rulkowski,
 24 do you have a response?
 25 MS. CAMERON-RULKOWSKI: It's the same

Page 298

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

1 response, your Honor, and so I'll just let the cat out
 2 of the bag here, which is, it looks -- what I'm getting
 3 at is, are these expenses lobbying expenses? And why
 4 don't I just ask it straight out.
 5 BY MS. CAMERON-RULKOWSKI:
 6 **Q. Ms. McCoy, are these expenses essentially**
 7 **lobbying expenses?**
 8 MS. RACKNER: Same objection. The costs are
 9 withdrawn from the case.
 10 JUDGE FRIEDLANDER: And so I think they're
 11 not an issue -- they're not a contested issue anymore.
 12 Doesn't mean you can't raise it in another proceeding
 13 where they become a contested issue, but for this, I'm
 14 going to have to sustain the objection.
 15 MS. CAMERON-RULKOWSKI: All right.
 16 JUDGE FRIEDLANDER: Thank you.
 17 BY MS. CAMERON-RULKOWSKI:
 18 **Q. Then I will move on to the costs that the --**
 19 **that we still do have a dispute about, which is the**
 20 **Yakima County Development Association expenses.**
 21 A. Okay.
 22 **Q. Ms. McCoy, do you have a copy of Ms. Van Meter's**
 23 **testimony with you?**
 24 A. Yes, I do.
 25 **Q. All right. Please refer to her testimony at**

Page 299

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY
 1 **page 4, starting at line 16.**
 2 MS. RACKNER: Excuse me. I had to get up to
 3 get it. Would you mind repeating the question?
 4 MS. CAMERON-RULKOWSKI: Certainly. It's
 5 page 4 of Ms. Van Meter's testimony, and that's TMV-1T.
 6 MS. RACKNER: Thank you.
 7 MS. CAMERON-RULKOWSKI: And starts at line
 8 16.
 9 THE WITNESS: Okay. I'm there.
 10 BY MS. CAMERON-RULKOWSKI:
 11 **Q. All right. Now, the Company's discovery**
 12 **response quoted there states that this \$7,500 amount is**
 13 **for a pledge, correct?**
 14 A. Correct.
 15 **Q. All right. And please go down to line 20.**
 16 A. Okay.
 17 **Q. And in the discovery response quoted there, the**
 18 **\$4,500 amount is for a challenge grant, correct?**
 19 A. Correct.
 20 **Q. The pledge -- now, do the pledge and the**
 21 **challenge grant help the Company provide prompt,**
 22 **expeditious and efficient electric service?**
 23 A. I would say it -- where -- not directly, but
 24 indirectly, the money that the Company has paid to this
 25 organization promotes the efficient use of the electric

Page 300

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY
 1 system, thereby benefitting the customers through that
 2 efficient use of the system.
 3 **Q. And could you elaborate on that, please?**
 4 A. Certainly. As the Company described in the --
 5 there was -- the data request that Ms. Van Meter
 6 submitted to us, we explained that the support of these
 7 organizations like the Yakima Development Commission, it
 8 helps -- where it helps a new customer site locations
 9 within the Company's service territory, then that
 10 promotes more efficient use of the existing system and
 11 thereby lowers the overall cost on a per customer basis.
 12 **Q. And as you've stated, that's an indirect effect,**
 13 **correct?**
 14 A. Correct.
 15 MS. CAMERON-RULKOWSKI: Thank you. I have
 16 no further questions for Ms. McCoy.
 17 JUDGE FRIEDLANDER: Thank you.
 18 Mr. ffitch, I believe you're up.
 19 MR. FFITCH: Thank you, your Honor. We've
 20 advised counsel for the Company that we have, in the
 21 event, no questions for Ms. McCoy given that the
 22 cross-exhibits are stipulated in.
 23 JUDGE FRIEDLANDER: Thank you. And I
 24 believe that leaves you, Mr. Cowell.
 25 MR. COWELL: Yes. Thank you, your Honor.

Page 301

EXAMINATION BY MR. COWELL / MCCOY
 *** EXAMINATION BY MR. COWELL ***
 1 BY MR. COWELL:
 2 **Q. Good afternoon, Ms. McCoy.**
 3 A. Good afternoon.
 4 **Q. So Ms. McCoy, if we could start off with Exhibit**
 5 **No. SEM-13CX, and page 1 of that exhibit, which is Boise**
 6 **Data Request 115.**
 7 **COMMISSIONER RENDAHL: I'm sorry. Can you**
 8 **repeat that? I'm still shuffling pages.**
 9 BY MR. COWELL:
 10 **Q. It's Exhibit No. SEM-13CX, and then starting**
 11 **with page 1.**
 12 A. Okay. I'm there.
 13 **Q. Okay. So near the bottom of that request,**
 14 **Ms. McCoy, your testimony -- your rebuttal testimony's**
 15 **quoted that you testified that the Company's filing is**
 16 **comprised of adjustments, incorporating discrete and**
 17 **identifiable cost increases over the next two years; is**
 18 **that correct?**
 19 A. That is correct.
 20 **Q. Now, when the Company was asked about this**
 21 **testimony, you prepared this data response, correct?**
 22 A. Correct.
 23 **Q. Which states that the Company's testimony**
 24 **referring to identifiable cost increases is merely a**
 25

Page 302

EXAMINATION BY MR. COWELL / MCCOY
 1 **summary reference to the net result of offsetting**
 2 **changes impacting revenue requirements; is that**
 3 **accurate?**
 4 A. Yes.
 5 **Q. So Ms. McCoy, do you think that there's any**
 6 **inconsistency or discord between those two responses?**
 7 **And specifically -- I mean alternately describing the**
 8 **same cost increase adjustments as discrete and**
 9 **identifiable, and then merely a summary reference to a**
 10 **net result of offsetting changes?**
 11 A. Well, I think if you look at the case in total,
 12 we start with a test period that includes both cost
 13 increases and decreases, and then we made pro forma --
 14 discrete pro forma increases.
 15 And upon rebuttal, we accepted Public Counsel's
 16 FTE reduction, in addition to our proposed wage increase
 17 that corresponds with that time period. So I'd say that
 18 we have both increases and decreases included in there.
 19 **Q. In terms of the Company's direct case, initial**
 20 **case --**
 21 A. Yes.
 22 **Q. -- were offsets included in that, or was it just**
 23 **the discrete --**
 24 A. In the --
 25 **Q. -- increases?**

EXAMINATION BY MR. COWELL / MCCOY

1 **A. In the base period, there are increases and**
2 **decreases both.**

3 **Q. So -- and also offsets?**

4 A. I'm not sure what you mean by an offset.

5 **Q. Well, as you -- this response testifies to a**
6 **summary reference to the net result of offsetting**
7 **changes. So that's what I'm getting at, so the direct**
8 **case included offsetting changes.**

9 A. Well, I would guess I would say we have, for
10 instance, some costs that have gone up, some costs that
11 have gone down, and our base period has both those
12 increases and decreases. And to the extent that they
13 offset, then, yes, offsets would be included.

14 **Q. Okay. If we could turn to page 2 of that**
15 **exhibit, so Boise Data Request 119.**

16 **The Company was asked to refer to your rebuttal**
17 **testimony, SEM-6T at 4, 19 through 23. And there you**
18 **had explained that Colstrip 3 O&M costs should be**
19 **removed as it is more consistent with a WCA, correct?**

20 A. That is what I stated, yes.

21 **Q. Then previously in rebuttal -- and it might be**
22 **helpful if we actually looked there -- page 4 of your**
23 **rebuttal testimony, SEM-6T.**

24 A. Okay. I'm there.

25 **Q. Okay. So lines 20 and 21, you explain that the**

EXAMINATION BY MR. COWELL / MCCOY

1 **A. It is.**

2 **Q. Could you walk me through maybe the differences?**

3 A. Well, the primary difference is that there were
4 some costs that Boise did not include, and so when we
5 looked at it, we looked at the full range of O&M costs
6 for Colstrip 3 and made sure that we incorporated all of
7 them. There were some FERC accounts that had been left
8 out of Boise's analysis, so we were trying to be
9 complete and make sure that we had captured all of them.

10 **Q. And your adjustment was larger, then, than**
11 **Boise's?**

12 A. I would have to check that to verify.

13 **Q. Maybe if we could just quickly -- let's see. In**
14 **your rebuttal testimony, page 3, I believe, and in Table**
15 **1 --**

16 A. Yes.

17 **Q. -- is that Adjustment 5.3, EIM Costs Removal?**

18 A. No, I believe you're talking about 5.2, Colstrip
19 3 Removal.

20 **Q. Oh, excuse me. Sorry. 5.2.**

21 **So for the record, we're speaking of Table 1,**
22 **SEM-6T, page 3, and Adjustment 5.2.**

23 **So your adjustment is -- let's see -- Revenue**
24 **Requirement Impact, negative 829,873?**

25 A. Correct.

EXAMINATION BY MR. COWELL / MCCOY

1 **Company had prepared its Colstrip 3 adjustment**
2 **consistent with the methodology used in previous cases,**
3 **correct?**

4 A. That is correct.

5 **Q. So again, in Boise Data Request 119, the Company**
6 **was asked to confirm that it previously used a**
7 **methodology for O&M costs -- in this case, Colstrip 3**
8 **O&M costs -- that upon further review PacifiCorp now**
9 **agrees to be less consistent with the WCA than an**
10 **adjustment proposed by Boise; is that correct?**

11 A. It's correct, but in actuality, the inclusion of
12 the Colstrip 3 O&M costs was inconsistent with the
13 treatment of Colstrip 3 plant in that it is not included
14 in rates and, therefore, we agreed, when Boise raised
15 this issue, that we should not include the associated
16 O&M costs either, and we removed them.

17 **Q. But specifically, I wanted to look at this**
18 **response to 119 that you didn't confirm the request**
19 **that -- which was stated that, "Please confirm the**
20 **Company used a methodology less consistent."**

21 **So that's still your testimony?**

22 A. Yes.

23 **Q. In terms of the actual Colstrip 3 O&M adjustment**
24 **that the Company agrees to, is that amount different**
25 **than what was proposed by Boise?**

EXAMINATION BY MR. COWELL / MCCOY

1 Q. And then do you have Mr. Mullins' testimony with
2 you?

3 A. I do.

4 **Q. And if you could please turn to BGM-11 Revised.**
5 **JUDGE FRIEDLANDER: Maybe you can wait for**
6 **all of us to get on the same page.**

7 MR. COWELL: Oh, certainly, your Honor.

8 COMMISSIONER JONES: What is it again, Mr.
9 Cowell? I'm catching up.

10 BY MR. COWELL:

11 **Q. And then BGM-11 Revised, which is actually in**
12 **response to Bench Request No. 5. It's the most**
13 **up-to-date figures.**

14 A. I'm sorry. I don't have that version with me.

15 **Q. I believe it's actually the same figure. We**
16 **could look at Mr. Mullins' cross-answering testimony,**
17 **BGM-10T.**

18 A. Okay.

19 **Q. And that would be page 2.**

20 A. Oh, as a matter of fact, I do have -- well, I
21 have BGM-11.

22 **Q. Either one. We can -- I'm just looking for you**
23 **to compare and contract Mr. Mullins' total with your own**
24 **and just explain, please, the difference.**

25 MS. RACKNER: Just for clarity, which of the

Page 307

EXAMINATION BY MR. COWELL / MCCOY

1 two exhibits is the witness looking at right now?

2 THE WITNESS: I'm looking at BGM-11.

3 MS. RACKNER: Thank you.

4 THE WITNESS: So without the specific

5 numbers in front of me to compare the calculation, I

6 would -- I believe that Mr. Mullins was inconsistent in

7 his testimony where, in one place he said to use the net

8 plant percentage allocation between the units, and then

9 it's possible that he used the gross plant percentage

10 allocation in his actual calculation.

11 BY MR. COWELL:

12 **Q. And you think those two issues account for the**

13 **difference? Excuse me. That one issue is the**

14 **difference?**

15 A. Yes.

16 **Q. Lastly, Ms. McCoy, you were here when I had**

17 **asked Mr. Dalley about the impact of updating the rate**

18 **period in the Company's rebuttal request?**

19 A. Yes, I was.

20 **Q. Okay. Would you be able to provide an answer to**

21 **the question I had asked him of what the impact is, just**

22 **isolating the rate period difference?**

23 A. To some extent. I can answer the question as it

24 relates to the production tax credits.

25 **Q. Okay.**

Page 308

EXAMINATION BY CHAIRMAN DANNER / MCCOY

1 **A. So turning back to my rebuttal testimony on page**

2 **3, in Table 1, Adjustment 7.3, the revenue requirement**

3 **change increased by approximately \$250,000 on the**

4 **production tax credits, and that's related to moving the**

5 **effective date from May 1st to July 1st to reflect the,**

6 **you know, longer time period of expired credits.**

7 **And then in year 2, it's Adjustment No. 4 on**

8 **Table 2, and that amount is approximately \$615,000, an**

9 **increase by moving out the effective date from May 1st**

10 **of 2017 to July 1st of 2017, again reflecting more**

11 **expired tax credits in that time period.**

12 MR. COWELL: Thank you, Ms. McCoy. No

13 further questions.

14 JUDGE FRIEDLANDER: Thank you.

15 Any redirect?

16 MS. RACKNER: No, your Honor.

17 JUDGE FRIEDLANDER: Thank you. Any

18 questions from the bench?

19 COMMISSIONER JONES: Not for me.

20 COMMISSIONER RENDAHL: No.

21 *** EXAMINATION BY CHAIRMAN DANNER ***

22 BY CHAIRMAN DANNER:

23 **Q. I do have one question with regard to the Yakima**

24 **membership. So that had a value, I believe, of 14,000**

25 **something.**

Page 309

EXAMINATION BY COMMISSIONER RENDAHL / MCCOY

1 **The benefits to the consumers that you**

2 **estimated, did you ever try to put a dollar amount on**

3 **that?**

4 A. No, we did not.

5 **Q. So could you again state for me what those**

6 **benefits were?**

7 A. By encouraging additional customers to site

8 within our service territory, it promotes a more

9 efficient use of our electric system, thereby reducing

10 the per customer cost of that system.

11 **Q. And has the Company been successful in siting**

12 **that new customer service?**

13 A. I can't speak to that. I'm sorry.

14 **Q. Okay. So there's no way of knowing right now**

15 **about whether the benefits actually exceed the amount of**

16 **membership?**

17 A. Right.

18 CHAIRMAN DANNER: Okay. Thank you.

19 JUDGE FRIEDLANDER: Thank you.

20 *** EXAMINATION BY COMMISSIONER RENDAHL ***

21 BY COMMISSIONER RENDAHL:

22 **Q. Actually, I do have a couple questions. And if**

23 **you are not the right witness for this, then please let**

24 **me know who is and we'll figure that out.**

25 **So my understanding is that the EIM costs,**

Page 310

EXAMINATION BY COMMISSIONER RENDAHL / MCCOY

1 **including depreciation and amortization expenses, will**

2 **be included in the variable power cost actuals in the**

3 **annual PCAM true-up filing; is that correct?**

4 A. That is the proposal, yes.

5 **Q. Okay. And is it the Company's intent to make**

6 **this method of recovery permanent, or to address it in**

7 **terms of when to recover the EIM costs and reflecting**

8 **the EIM benefits in the next general rate case? Is this**

9 **just a temporary solution or is this the permanent**

10 **solution?**

11 A. That I'm not sure. But in this case, we're

12 attempting to match up the costs and the benefits within

13 the PCAM proceeding.

14 **Q. Okay. And just another question -- and I'm**

15 **sorry, I don't have a page reference -- but this is**

16 **related to decoupling. And if you're not the**

17 **appropriate witness for this, I think it has to do with**

18 **the calculations, but you can defer this to someone else**

19 **if you wish.**

20 **So the Company has said it would limit its**

21 **annual decoupling adjustments to three percent, but**

22 **doesn't indicate three percent of what.**

23 **Is that the revenue requirement?**

24 A. I believe that is the case. The specifics on

25 the decoupling mechanism can be addressed by

Page 311

EXAMINATION BY COMMISSIONER RENDAHL / MCCOY

1 Ms. Steward.

2 **Q. That's what I thought, but I thought I'd ask**

3 **you --**

4 A. Yeah.

5 **Q. -- since you know the overall picture of the**

6 **whole thing.**

7 A. Right.

8 **Q. All right. I will defer other decoupling**

9 **questions to Ms. Steward. Thanks very much.**

10 A. Okay.

11 MS. RACKNER: And your Honor, if I may,

12 Mr. Dalley can answer the question with respect to the

13 EIM that was posed by Commissioner Rendahl. So if you

14 would like to recall him, that is fine with us.

15 JUDGE FRIEDLANDER: Thank you.

16 COMMISSIONER RENDAHL: I guess I would only

17 say, if his answer is different, then I would have him

18 come forward. If it's the same, then I think we're

19 good.

20 JUDGE FRIEDLANDER: It looks like he's

21 indicating it's the same. Thank you.

22 Thank you for your testimony, Ms. McCoy.

23 You're excused.

24 THE WITNESS: Thank you.

25 JUDGE FRIEDLANDER: Why don't we take a

Page 312

EXAMINATION BY COMMISSIONER RENDAHL / MCCOY

1 ten-minute break and we'll come back at 3:25.

2 Thank you. We're off the record.

3 (A break was taken from

4 3:15 p.m. to 3:32 p.m.)

5 JUDGE FRIEDLANDER: All right. We'll go

6 back on the record.

7 So I believe we have Ms. Steward?

8 MS. MCDOWELL: That's correct. And between

9 witnesses, may I ask whether Mr. Strunk and Mr. Vail may

10 be excused from the hearing at this point?

11 CHAIRMAN DANNER: Oh, yeah. That was the

12 intent. Sorry.

13 MS. MCDOWELL: Thank you.

14 JUDGE FRIEDLANDER: Thank you.

15 MS. CAMERON-RULKOWSKI: And Mr. Parcell as

16 well?

17 JUDGE FRIEDLANDER: I think so, yeah.

18 MS. CAMERON-RULKOWSKI: Thank you.

19

20 JOELLE STEWARD, witness herein, having been

21 first duly sworn on oath,

22 was examined and testified

23 as follows:

24

25 JUDGE FRIEDLANDER: Thank you. Please be

Page 313

EXAMINATION BY MS. RACKNER / STEWARD

1 seated.

2 Ms. McDowell -- oh, Ms. Rackner?

3 MS. RACKNER: Thank you.

4 *** EXAMINATION BY MS. RACKNER ***

5 BY MS. RACKNER:

6 **Q. Ms. Steward, would you please state and spell**

7 **your name for the record?**

8 A. My name is Joelle Steward. It's J-O-E-L-L-E

9 S-T-E-W-A-R-D.

10 **Q. And how are you employed?**

11 A. I am the director of rates and regulatory

12 affairs for PacifiCorp.

13 **Q. And in that capacity, did you file testimony and**

14 **exhibits in this docket?**

15 A. Yes.

16 **Q. And were those JRS-1 through 18?**

17 A. Yes.

18 **Q. Do you have any corrections to your testimony or**

19 **exhibits?**

20 A. I do not.

21 **Q. And if I asked you the questions that are in**

22 **this testimony today, would your answers be the same?**

23 A. Yes.

24 MS. RACKNER: Your Honor, Ms. Steward is

25 available for cross-examination.

Page 314

EXAMINATION BY MR. COWELL / STEWARD

1 JUDGE FRIEDLANDER: Thank you.

2 Mr. Cowell?

3 MR. COWELL: Thank you, your Honor.

4 *** EXAMINATION BY MR. COWELL ***

5 BY MR. COWELL:

6 **Q. Good afternoon, Ms. Steward.**

7 A. Good afternoon.

8 **Q. So Ms. Steward, you have reviewed the rate**

9 **design proposal of Mr. Mullins on behalf of Boise**

10 **applicable to Schedule 48T, correct?**

11 A. Correct.

12 **Q. And if you could turn to Exhibit No. JRS-19CX,**

13 **page 1, which is Boise Data Request 126.**

14 A. I'm there.

15 **Q. Okay. Now, this recounts that, in your rebuttal**

16 **testimony, you stated a belief that Boise's proposal --**

17 **Boise's rate design proposal ignores differences in cost**

18 **characteristics for different types of customers because**

19 **it applies the same rate design to all customer types in**

20 **Schedule 48T, right?**

21 A. Correct. That's -- yeah, that's what the

22 question is referring to.

23 **Q. Now, you also confirmed in your response that**

24 **the Company's proposed Schedule 48T rate design is based**

25 **on applying the class average increase to all billing**

Page 315

EXAMINATION BY MR. COWELL / STEWARD

1 **charges to provide consistent impacts, right?**
 2 A. For the non-dedi -- for the Schedule 48
 3 customers that are on the non-dedicated facilities
 4 rates.
 5 **Q. So where -- at the very end of your response**
 6 **there, it says, "consistent impacts across all Schedule**
 7 **48T customers." Just to clarify, that's --**
 8 A. Yes.
 9 **Q. That refers to --**
 10 A. Yes, that refers to all Schedule 48T customers.
 11 **Q. All Schedule 48T customers?**
 12 A. Yeah.
 13 **Q. Okay. Between the rebuttal testimony that we**
 14 **just recited in the request and the response there, do**
 15 **you find any inconsistency?**
 16 A. No, I do not.
 17 **Q. No. Okay. Let's go onto the next page, which**
 18 **is Boise Data Request 128, page 2.**
 19 **So first you confirmed a couple statements you**
 20 **made in rebuttal testimony in that response, right?**
 21 A. Correct.
 22 **Q. Now, you also referred Boise to cost of service**
 23 **studies, quote, for proper context, end quote, in the**
 24 **very next sentence of that response, correct?**
 25 A. Correct.

Page 316

EXAMINATION BY MR. COWELL / STEWARD

1 Q. And for proper context here, you also prepared a
 2 response to Boise Data Request 131, which is skipping
 3 ahead a couple -- a few to page 5 of this exhibit, in
 4 which the Company confirmed that it did not prepare an
 5 updated cost of service study for this case, correct?
 6 A. Correct.
 7 **Q. If you could turn back to Data Request 129,**
 8 **which is page 3 of this exhibit.**
 9 **You take the position that service**
 10 **characteristics of the Company's largest Schedule 48T**
 11 **customer, quote [as read], "justifies separate**
 12 **consideration in the cost of service in pricing models,"**
 13 **correct?**
 14 A. Correct.
 15 **Q. And if you could turn to the next data request,**
 16 **which is page 4 of this exhibit, Boise Data Request 130.**
 17 **You prepared a response stating that dedicated**
 18 **facilities should receive the same increase as other**
 19 **classes, including other Schedule 48T customers, right?**
 20 A. Correct. Schedule 48T dedicated facilities is
 21 treated as a separate class in the class of service
 22 study.
 23 **Q. Now, looking at that first sentence there, but**
 24 **your response was that the Company's position was they**
 25 **should receive the same increase as other classes,**

Page 317

EXAMINATION BY MR. COWELL / STEWARD

1 **right?**
 2 A. Correct, yes.
 3 **Q. Now, in this response, you also disagreed with**
 4 **the proposition of the request that it would be fair for**
 5 **dedicated facility customers to receive a different**
 6 **increase relative to other Schedule 48T customers,**
 7 **correct?**
 8 A. Could you repeat that?
 9 **Q. Sure.**
 10 A. I think I got lost.
 11 **Q. No. Sure. It's probably helpful just to**
 12 **actually -- as I read here, the first sentence of the**
 13 **request --**
 14 A. Of the request?
 15 **Q. Yes. Yeah. Right. I'm basically trying to get**
 16 **to confirming your response.**
 17 A. You're reading the question or the answer?
 18 **Q. Yeah. So in Boise Data Request 130, the actual**
 19 **request, it says, "Does the Company agree that it would**
 20 **be fair for Schedule 48T-Dedicated Facilities customers**
 21 **to receive a different increase relative to other**
 22 **Schedule 48T customers," and your response was "No,"**
 23 **correct?**
 24 A. Yes.
 25 **Q. Okay.**

Page 318

EXAMINATION BY MR. PURDY / STEWARD

1 **A. Yes, that's correct.**
 2 **Q. Thank you. So again, do you find -- we went**
 3 **over your responses to 129 and 130.**
 4 **Do you find any inconsistency between those**
 5 **responses?**
 6 A. No, I do not.
 7 **Q. And finally, Ms. Steward, you confirmed -- if**
 8 **you would turn to the last page of this exhibit, Boise**
 9 **Data Request 132, you confirmed in the response to this**
 10 **request that, according to your testimony, Dedicated**
 11 **Facilities have been under-collecting for demand and**
 12 **customer charges and over-collecting for energy and**
 13 **reactive charges, right?**
 14 A. Yes.
 15 MR. COWELL: No further questions,
 16 your Honor.
 17 JUDGE FRIEDLANDER: Thank you.
 18 Mr. Purdy?
 19 MR. PURDY: Yes. Thank you.
 20 *** EXAMINATION BY MR. PURDY ***
 21 BY MR. PURDY:
 22 **Q. Good afternoon, Ms. Steward.**
 23 A. Good afternoon.
 24 MR. PURDY: Thank you to the Company for
 25 allowing me to speak with Ms. Steward prior to the

EXAMINATION BY MR. PURDY / STEWARD

EXAMINATION BY MR. PURDY / STEWARD

1 hearing commencing, and I think it will help me cut down
2 on my cross. So I'll move through this as quickly as
3 possible.

1 the low income bill assistance program as that comes to
2 the end of its five-year plan in 2017.

4 BY MR. PURDY:

3 **Q. And I think you used the word "modify." Would
4 that also include taking a look at the budgeting for
5 bill assistance?**

5 **Q. Ms. Steward, do you recall the three
6 collaboratives that the Energy Project is interested in
7 pursuing with the Company, among others that we
8 discussed previously?**

6 A. Yes.

9 **Q. And do those include low income weatherization
10 assistance, low income bill assistance, and a
11 collaborative for the purpose of obtaining better low
12 income data for the commissioners to assist them in
13 making a number of decisions?**

7 **Q. Among other things?**

8 A. I don't believe there's anything off the table.

15 A. Yes.

9 **Q. That's great. Thank you.**

16 **Q. Okay.**

10 **Regarding these collaboratives, will the Company
11 give its assurance that it will provide adequate data
12 and staffing resources necessary to identifying -- with
13 respect to low income information, identifying the total
14 number of low income customers in the Company's service
15 territory?**

17 A. Although I thought when you mentioned three that
18 the other one was just a general residential rate design
19 collaborative that Staff had initiated.

16 A. Correct. And I think as part of those
17 discussions that will be held is, we will look at what
18 data we have available, what data is publicly available,
19 and figure out the best way to put it all together and
20 answer the questions that the Energy Project and the
21 Commission and other stakeholders may have.

20 **Q. Well, there are, I think, several other
21 collaboratives -- rate design, cost of service -- but I
22 think the collaboratives that I outlined will play into
23 the rate design.**

22 **Q. Thank you. And similarly, will the Company
23 provide the necessary data and staffing resources
24 necessary to evaluate the energy burden and energy
25 consumption and other impacts of energy bills that low**

24 **For instance, the low income data might help us
25 in determining whether a third residential tier would be**

EXAMINATION BY MR. PURDY / STEWARD

EXAMINATION BY MR. PURDY / STEWARD

1 **appropriate; is that not true?**

1 **income households receive?**

2 A. That is true, yes.

2 A. Possibly, but I don't want to close the door to
3 other entities being able to assist with that as well.

3 **Q. Okay. Thank you.**

4 **Q. Okay. Certainly. Thank you.**

4 **Now, regarding these collaboratives, what would
5 be the Company's preference as to who would be at the
6 table for a discussion and involvement in this?**

5 **And regarding the study itself, I think that
6 there was a -- or I'm sorry -- the attempt to obtain
7 better low income data, at one point in your rebuttal --
8 and I can find it if you need to, if you need it -- you
9 expressed some hesitation as to having to do another
10 study.**

7 A. At a minimum, the Energy Project, Staff, I
8 believe Public Counsel, the Company. What other -- what
9 other interested parties would be willing to participate
10 we'd be open to.

11 **I just want to clear up for the record that you
12 do agree, do you not, for a continued examination of the
13 study of the low income population, or consumption
14 patterns and behavior, but doing it through a
15 collaborative process where all parties involved would
16 put their collective heads together and brainstorm for
17 hopefully a way to obtain better data than we had
18 previously?**

11 **Q. Would it be fair to say all interested
12 stakeholders can have a seat at the table?**

19 A. Well, possibly. But I mean, we do have -- we
20 did a consumption survey. We have data that we can pull
21 from our billing system about residential customers who
22 have sort of self-identified as low income. We can look
23 at the other survey responses.

13 A. Yes, I believe so.

14 **Q. Okay. Great. Thank you.**

24 **But I think first we have to assess where are
25 the data gaps we have, after fully examining what data**

15 **And do you have any idea as to the timeline for
16 these collaboratives?**

17 A. Well, a first meeting has been scheduled for
18 July already to discuss and sort of lay out a process
19 and plan with target deliverables for the first quarter
20 of Jan -- of 2017.

21 **Q. And by "deliverables," could you explain what
22 you mean?**

23 A. A proposal -- two things. Proposals on how to
24 address any changes in the low income weatherization
25 program, and then also any proposals on how to modify

Page 323

EXAMINATION BY MR. PURDY / STEWARD

1 we currently have available, before saying we need
 2 better data that we would have to go out and acquire.

3 **Q. And I assume that you've heard from a number of**
 4 **witnesses over the last few rate cases that the proxy**
 5 **group that we've been using to identify the low income**
 6 **customers and study them is roughly 5.6 percent of the**
 7 **total customer residential population of the Company; is**
 8 **that not true?**

9 A. I cannot confirm that number right now.

10 **Q. Do you recall --**

11 A. I --

12 **Q. Go ahead.**

13 A. You said it earlier today, but I haven't
 14 verified that.

15 **Q. Do you recall Mr. Roger Cucci's (phonetic)**
 16 **testimony from the 2014 rate case, by any chance?**

17 A. I don't recall the data that he presented in
 18 that.

19 **Q. Okay. Generally, would you agree that we do not**
 20 **have a complete picture as to the number of low and true**
 21 **low income customers for the purposes of these various**
 22 **programs that the Company actually has?**

23 A. In our service area?

24 **Q. Yes, in your service area.**

25 A. No.

Page 324

EXAMINATION BY MS. RACKNER / STEWARD

1 Q. Okay.

2 MR. PURDY: Excuse me just one second,
 3 your Honor. That is it. Thank you very much. I
 4 appreciate it.

5 JUDGE FRIEDLANDER: Thank you.
 6 Any redirect, Ms. Rackner?

7 MS. RACKNER: Yes, just briefly.

8 *** EXAMINATION BY MS. RACKNER ***

9 BY MS. RACKNER:

10 **Q. Ms. Steward, I want to ask you a question about**
 11 **something that Mr. Cowell asked you about with respect**
 12 **to the Boise DR-131, which is a part of Cross-Exhibit**
 13 **19X.**

14 A. Okay.

15 **Q. And with respect to that DR, Mr. Cowell asked**
 16 **you whether or not the Company had prepared a cost of**
 17 **service study to support its proposal in this case, and**
 18 **you answered that it had not.**

19 **And I wanted to ask you why you believe it was**
 20 **appropriate to make the proposal without having first**
 21 **performed a cost of service study.**

22 A. Well, yeah. We didn't perform a new cost of
 23 service study for this case. We prepared this case, we
 24 tried to keep it to a limited number of issues. I
 25 evaluated whether or not the result of the last cost of

Page 325

EXAMINATION BY CHAIRMAN DANNER / STEWARD

1 service study showed that the customer classes were
 2 within a reasonable range of parity and they were.

3 And my experience with the practice of this
 4 Commission has been to look at a reasonable range of
 5 parity. Four out of the last five rate cases have
 6 resulted in equal percent spread. The last case, there
 7 were some slight tweaks. As a result of those tweaks,
 8 all classes were again in that reasonable range of
 9 parity.

10 So it was really just a way to limit the issues
 11 that would be litigated in this case. It does not mean
 12 that the results of our rates -- or our rate spread
 13 proposals are not based on cost of service. They are.
 14 We just did not update a new cost of service study.

15 MS. RACKNER: Thank you, Ms. Steward.
 16 That's all I have.

17 JUDGE FRIEDLANDER: Thank you.
 18 Any questions from the bench?

19 CHAIRMAN DANNER: Yeah.

20 *** EXAMINATION BY CHAIRMAN DANNER ***

21 BY CHAIRMAN DANNER:

22 **Q. Good afternoon, Ms. Steward.**

23 **I was -- I saw that the Shawn Collins testimony**
 24 **requested a personal facilitator for the stakeholder**
 25 **collaborative. And in your testimony, you're saying**

Page 326

EXAMINATION BY COMMISSIONER RENDAHL / STEWARD

1 **that that's not -- you don't believe that's necessary.**
 2 **Has that been resolved, or is that still a point**
 3 **of contention?**

4 A. I don't believe it's a point of contention. We
 5 discussed this morning and that was not raised. I think
 6 we have a good relationship with the Energy Project and
 7 with the agencies in our service area.

8 **Q. So you think that the participants can basically**
 9 **facilitate themselves, and if you need some dispute**
 10 **resolution, that would be available?**

11 A. Then we could seek that through the Commission's
 12 processes, yes.

13 **Q. All right. Thank you.**

14 **We had our public hearings in Walla Walla and in**
 15 **Yakima, and I can tell you that there were**
 16 **representatives from the CAP agencies, and they were**
 17 **both very strongly in support of this stakeholder**
 18 **process, and so that will be reflected in the public**
 19 **comments.**

20 CHAIRMAN DANNER: Thank you.

21 *** EXAMINATION BY COMMISSIONER RENDAHL ***

22 BY COMMISSIONER RENDAHL:

23 **Q. Good afternoon, Ms. Steward.**

24 A. Good afternoon.

25 **Q. So while you did not have cross-examination**

Page 327

EXAMINATION BY COMMISSIONER RENDAHL / STEWARD

1 questions about decoupling, you are the decoupling
 2 witness, so do you mind answering a few questions about
 3 that?
 4 A. Not at all.
 5 **Q. Okay. So you heard my question to Ms. McCoy,**
 6 **and so I'm just confirming this with you, that the**
 7 **Company stated that it would limit its decoupling**
 8 **adjustments to three percent, but didn't reference three**
 9 **percent of what.**
 10 **It is revenue requirement, correct?**
 11 A. Yes. And actually, in the tariff that we
 12 proposed itself, which is in JRS-16, we actually specify
 13 how that would be done.
 14 And so it's a three percent limitation would be
 15 calculated based on the total normalized revenues for
 16 the 12-month period ending June 30 each year. So it's
 17 not the revenue requirement that comes out of this case;
 18 it's sort of a moving target in order to keep it to be a
 19 more real three percent.
 20 **Q. Thank you. That's very helpful.**
 21 **And further, on the Company's commitment to file**
 22 **quarterly reports with the Commission and to evaluate**
 23 **the effectiveness of the decoupling mechanism, is there**
 24 **an expectation that these quarterly reports would, in a**
 25 **sense, as a cumulative effect, end up with a third-party**

Page 328

EXAMINATION BY COMMISSIONER RENDAHL / STEWARD

1 **evaluation? They'd be part of that process or be part**
 2 **of the history of that?**
 3 A. Yes, they would be available to that third-party
 4 evaluator.
 5 **Q. Okay. And will those reports be filed in this**
 6 **docket, or have you had discussions with Staff at all**
 7 **about whether there's a new docket for this?**
 8 A. We have not had discussions. I think we're open
 9 to whatever process the Commission or Commission Staff
 10 want on that.
 11 **Q. Okay. And then on the issue of the power cost**
 12 **adjustment mechanisms, so the Company is proposing to**
 13 **track and recover only non-power-related costs through**
 14 **the decoupling mechanism, correct?**
 15 A. Yes.
 16 **Q. And you're familiar with Avista's and Puget**
 17 **Sound Energy's proposals?**
 18 A. Their decoupling proposals?
 19 **Q. Yes.**
 20 A. Yes. Or mechanisms.
 21 **Q. So Avista's mechanism includes all fixed costs,**
 22 **including production costs, correct?**
 23 A. Yes.
 24 **Q. Okay. And in August of last year, we modified**
 25 **Puget Sound Energy's power costs and decoupling to move**

Page 329

EXAMINATION BY COMMISSIONER RENDAHL / STEWARD

1 **production -- fixed production costs from the P-C-A-M,**
 2 **PCAM, into its decoupling mechanism, so it looks like**
 3 **there's a trend here.**
 4 **Is there -- so the proposal for fixed production**
 5 **costs in PacifiCorp's, they're deferred into the PCAM,**
 6 **correct, in PacifiCorp's proposal, fixed production**
 7 **costs?**
 8 A. Not exactly. So net power costs, all the
 9 variable fuel costs that go through the PCAM, those are
 10 in the PCAM. We remove those costs for the decoupling.
 11 So it's -- everything else is essentially in the
 12 decoupling mechanism. So I'm not sure what you mean by
 13 "fixed production costs."
 14 **Q. I guess I'm asking whether, is there an intent**
 15 **to -- so you have the decoupling proposal for this**
 16 **proceeding. Is there interest in ensuring that all of**
 17 **the mechanisms across the three utilities operate**
 18 **consistently in the future? Or is there a reason why**
 19 **PacifiCorp should be different related to power costs**
 20 **and PCAM and decoupling?**
 21 A. I thought we were actually quite similar in our
 22 approach. I don't have -- you know, I certainly didn't
 23 try to -- they're very similar approaches. I don't know
 24 that everything has to be cookie cutter across all three
 25 utilities.

Page 330

EXAMINATION BY COMMISSIONER RENDAHL / STEWARD

1 I made a couple refinements to decoupling
 2 mechanisms I saw on the other two utilities that I
 3 thought worked better for us. So I can't speak to if we
 4 have an interest in all three marching forward together,
 5 but I think there is consistency generally across the
 6 three.
 7 COMMISSIONER RENDAHL: Okay. Well, thank
 8 you. That's all I have. I don't know if my colleagues
 9 have other questions.
 10 COMMISSIONER JONES: No questions.
 11 CHAIRMAN DANNER: Good.
 12 JUDGE FRIEDLANDER: Okay. Thank you.
 13 Thank you, Ms. Steward. You're excused.
 14 THE WITNESS: Thanks.
 15 JUDGE FRIEDLANDER: And I believe that
 16 concludes the Utility's witnesses?
 17 MS. MCDOWELL: Your Honor, it does
 18 include -- that does conclude our case.
 19 With respect to one of the witnesses who was
 20 not called for questioning today either by the parties
 21 or the Commission, Ms. Hymas, we have one change to her
 22 pre-filed testimony. I could either read it into the
 23 record now, or we could file an errata, however you want
 24 to handle that.
 25 JUDGE FRIEDLANDER: I think an errata would

Page 331

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

1 be most efficient.

2 MS. MCDOWELL: We will do that. Thank you.

3 JUDGE FRIEDLANDER: And I believe the next

4 witness is Mr. Ball.

5

6 JASON BALL, witness herein, having been

7 first duly sworn on oath,

8 was examined and testified

9 as follows:

10

11 JUDGE FRIEDLANDER: Thank you. You can be

12 seated.

13 Is it going to be Ms. Cameron-Rulkowski?

14 MS. CAMERON-RULKOWSKI: Yes, your Honor.

15 JUDGE FRIEDLANDER: Okay.

16 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

17 BY MS. CAMERON-RULKOWSKI:

18 **Q. Good afternoon, Mr. Ball.**

19 A. Good afternoon.

20 **Q. Would you please state your full name?**

21 A. Jason Ball.

22 **Q. And where are you employed?**

23 A. Washington State Utilities and Transportation

24 Commission.

25 **Q. And what position do you currently hold with the**

Page 332

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

1 **Commission?**

2 A. I'm a regulatory analyst.

3 **Q. And please direct your attention to Exhibit No.**

4 **JLB-1T.**

5 **Is this the testimony that you prepared in**

6 **response to Pacific Power's pre-filed direct testimony?**

7 A. It is.

8 **Q. And in the course of your direct testimony, you**

9 **refer to Exhibit Nos. JLB-2 through JLB-6.**

10 **Were these exhibits prepared by you?**

11 A. Yes.

12 **Q. Are there any corrections that you need to make**

13 **to your testimony or to the exhibits?**

14 A. Yes. I have a correction to JLB-1T, my direct

15 testimony, on page 13.

16 Beginning on -- please incorporate the changes

17 that were reflected in the errata filed on Friday.

18 Beginning on line 5, the numbers should read 5,330,704,

19 or 1.58 percent.

20 In Table 2, beginning at line 8, Jim Bridger SCR

21 Rate Plan or Column Rate Plan, Year 1, should read,

22 1,443,576.

23 Row General Adjustments Other should read

24 6,774,280.

25 CHAIRMAN DANNER: I'm sorry, Mr. Ball.

Page 333

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

1 Could you repeat that, please?

2 THE WITNESS: 6,774,280.

3 Total Modeled Revenue Requirement Change,

4 the next row, should read 5,330,704.

5 And the last row, Staff Proposed Rate Change

6 in Rate Plan Year 2, 728,690.

7 And finally on row 12 -- or excuse me, line

8 12, it should read, 728,690, or .216 percent.

9 JUDGE FRIEDLANDER: And --

10 MS. CAMERON-RULKOWSKI: And we will --

11 JUDGE FRIEDLANDER: I was just going to

12 say -- you read my mind -- you'll be filing those

13 electronically as well, right?

14 MS. CAMERON-RULKOWSKI: That's correct.

15 JUDGE FRIEDLANDER: Thank you.

16 BY MS. CAMERON-RULKOWSKI:

17 **Q. Now, Mr. Ball, if I asked you the questions in**

18 **your testimony today, would your answers be the same?**

19 A. They would.

20 MS. CAMERON-RULKOWSKI: And Mr. Ball is

21 available for cross-examination and for questions from

22 the bench.

23 JUDGE FRIEDLANDER: Thank you.

24 Ms. Rackner?

25 MS. RACKNER: Yes.

Page 334

EXAMINATION BY MS. RACKNER / BALL

1 *** EXAMINATION BY MS. RACKNER ***

2 BY MS. RACKNER:

3 **Q. Good afternoon, Mr. Ball.**

4 A. Good afternoon.

5 **Q. I wanted to start by asking you some questions**

6 **about Staff's recommendation with respect to the Idaho**

7 **Power Asset Exchange. And if you don't mind, just to**

8 **get us all on the same page, I'd like to just review**

9 **Staff's recommendation.**

10 **First, you recommend that the Commission reject**

11 **the Company's proposal to allocate to the WCA the assets**

12 **the Company gained in the exchange, correct?**

13 A. Yes. That particular group we refer to as the

14 Exchange Assets.

15 **Q. Okay. And then there's another set of assets**

16 **that Staff refers to as the Reassignment Assets, and**

17 **those are the assets that the Company had been -- had**

18 **owned, but now the Company is proposing to reallocate**

19 **them to the WCA because the Company believes that**

20 **they're now available to serve customers on the West**

21 **side; is that correct?**

22 A. Yes. That particular set of assets refers to

23 assets along the Bridger to Goshen and Goshen to Kinport

24 line.

25 **Q. Okay. And so it's your position that those**

EXAMINATION BY MS. RACKNER / BALL

1 should not be allocated to the WCA; is that correct?
 2 A. That's correct.
 3 **Q. Okay. And your position is that Staff seriously**
 4 **questions whether the benefits of the transaction are**
 5 **commensurate with the cost; is that correct?**
 6 **And why don't I direct you to your testimony at**
 7 **page 71, lines 4 through 5.**
 8 A. Yes, that's correct.
 9 **Q. Okay. So beginning on page 67 of your**
 10 **testimony, starting at line 19 --**
 11 A. Yes.
 12 **Q. -- you discuss an open meeting memorandum that**
 13 **was filed by Mr. Twitchell for Staff in the docket that**
 14 **the Company filed for approval of Idaho Power Asset**
 15 **Exchange; is that correct?**
 16 A. That is correct.
 17 **Q. And now, in the approval docket, Staff analyzed**
 18 **the petition that was brought by the Company under the**
 19 **Commission's no-harm standard; is that correct?**
 20 A. I believe that's the standard Mr. Twitchell used
 21 and I cited in your testimony -- in my testimony, yes.
 22 **Q. And in analyzing whether the exchange met the**
 23 **no-harm standards, Staff, in their memo, addressed both**
 24 **the expected costs and the expected benefits of the**
 25 **exchange; is that correct? And let me direct you to**

EXAMINATION BY MS. RACKNER / BALL

1 **efficiency by replacing the legacy agreements with**
 2 **transparent owed-based transactions; is that correct?**
 3 A. That's correct.
 4 **Q. And would improve the prospects for cost sharing**
 5 **with Idaho Power on future transmission projects and**
 6 **increase Pacific Power's ownership in the transmission**
 7 **lines that it uses to serve the West Balancing Area,**
 8 **thereby reducing the need for wheeling on Idaho Power's**
 9 **lines; is that correct?**
 10 A. That's correct.
 11 **Q. Okay. And with respect to the costs, I want to**
 12 **direct you to page three of that same memorandum.**
 13 **And at the very bottom of the page, Staff states**
 14 **that, relying on data responses that were provided by**
 15 **Pacific Power in that docket, Staff would expect a**
 16 **near-term increase in rates of about \$575,000; is that**
 17 **correct?**
 18 A. That's correct.
 19 **Q. So based on those costs and those benefits,**
 20 **Staff did conclude that the no-harm standard had been**
 21 **satisfied, did they not?**
 22 A. Yes. But to be clear, this memo and this
 23 particular docket were late into the approval of --
 24 approval of the actual exchange, not necessarily
 25 approval of the ratemaking treatment associated with it.

EXAMINATION BY MS. RACKNER / BALL

1 **your Cross-Exhibit No. 7.**
 2 A. Okay. Which page?
 3 **Q. And -- well, first let me ask you, is that the**
 4 **open meeting memorandum that you referred to in your**
 5 **testimony?**
 6 A. Yes.
 7 **Q. Okay. And -- well, let me just ask you, with**
 8 **respect to the benefits of the transaction, do you agree**
 9 **with me that those are summarized on pages -- starting**
 10 **at the bottom of page 6 going onto page 7 of the**
 11 **exhibit?**
 12 A. Well, I believe the way Mr. Twitchell phrased it
 13 is what the transaction would do and what the
 14 transaction would not do.
 15 **Q. Okay. So let's start with what the transaction**
 16 **would do.**
 17 **So first of all, Mr. Twitchell concluded that**
 18 **the transaction would increase reliability for the**
 19 **Company's Idaho service territory; is that correct?**
 20 A. That is correct.
 21 **Q. The transaction would increase the Company's**
 22 **ability to serve loads in the West Balancing Area in**
 23 **certain line outage situations; is that correct?**
 24 A. That's correct.
 25 **Q. The transaction would improve administrative**

EXAMINATION BY MS. RACKNER / BALL

1 Q. That's correct. But the -- but Staff did look
 2 at what the potential or expected costs would be; is
 3 that correct?
 4 A. Correct. The potential or expected costs and
 5 benefits that were known at the time.
 6 **Q. And have you read Mr. Vail's testimony in this**
 7 **case?**
 8 A. I have.
 9 **Q. And would you agree with me that, generally,**
 10 **that the benefits that are listed in Mr. Twitchell's**
 11 **memorandum are generally the same benefits that the**
 12 **Company discusses in Mr. Vail's testimony?**
 13 A. Yes, I would agree with that.
 14 **Q. Okay. So I next want to direct your attention**
 15 **to page 73 of your testimony. And starting at line 4 --**
 16 **excuse me. I'm on the wrong page myself. Okay.**
 17 **Starting on line 4, you state, "Further, the**
 18 **Company has stated the reason for acquiring the Exchange**
 19 **Assets was not to serve an entity located in the WCA."**
 20 **Do you see that?**
 21 A. Yes, I see that.
 22 **Q. And you support that statement with a quote.**
 23 **The quote says, "Following the exchange, PacifiCorp has**
 24 **ownership on the Jim Bridger to Goshen line that**
 25 **facilitates service to the Goshen area load. PacifiCorp**

EXAMINATION BY MS. RACKNER / BALL

EXAMINATION BY MS. RACKNER / BALL

1 did not have this ability before the exchange."

1 **Okay. I want to take you back to the schematic**
2 **that you provided on -- I believe it was on page 65 of**
3 **your testimony. I'll try not to refer to colors knowing**
4 **that not everybody's got color here.**

2 **Did I read that correctly?**

5 **But first let me just ask you, do you agree**
6 **that, as a result of the exchange, there are certain**
7 **assets that are currently included in the WCA that**
8 **Pacific Power no longer owns?**

3 A. Yes.

9 A. By "currently included," you mean assets that
10 have been previously included as part of rates and were
11 transferred to Idaho Power?

4 **Q. And you cite, as support for that statement,**
5 **Pacific Power's response to Staff, Data Request Number**
6 **5?**

12 **Q. Yes, that's correct.**

7 A. 105.

13 A. Yes, I believe -- I believe that would be true.

8 **Q. Excuse me, yes. 105.**

14 **Q. Okay. And I just want to direct your attention**
15 **to this schematic that shows there's three transmission**
16 **lines leaving the Jim Bridger generation plant, and it's**
17 **the bottom two lines that are solid lines that**
18 **PacifiCorp previously owned 100 percent of; is that**
19 **correct?**

9 A. Yes.

20 A. That's correct.

10 **Q. Okay. And -- but you didn't offer into evidence**
11 **that Response 105, did you?**

21 **Q. And is it your understanding now that PacifiCorp**
22 **owns a two-third interest in each of those lines?**

12 A. I don't believe so, no.

23 A. Yes.

13 **Q. Okay. So I want to direct your attention to**
14 **your Cross-Exhibit 10CX.**

24 **Q. And isn't Staff's recommendation that**
25 **100 percent of the cost of those lines would continue to**

15 **So is that the Data Request 105 that you're**
16 **quoting in your testimony?**

17 A. Yes, it is.

18 **Q. Okay. And the question that's posed in that DR**
19 **is as follows: "Regarding the direct testimony of**
20 **Richard Vail, Exhibit No. RAV-1T, page 8, lines 10**
21 **through 13, please explain in detail how the Idaho Power**
22 **Asset Exchange will enable the Company to more**
23 **efficiently operate its transmission system."**

24 **Did I read that correctly?**

25 A. Yes.

EXAMINATION BY MS. RACKNER / BALL

EXAMINATION BY MS. RACKNER / BALL

1 Q. Okay. The response the Company provides, the
2 first paragraph is the sentence that you quoted in your
3 testimony, but it's the second paragraph that I wanted
4 to call your attention to.

1 **be allocated to the WCA?**

5 Do you need a moment to get there?

2 A. Effectively, for the time being, yes. But I
3 mean, that's part of the issue with regulatory lag in
4 that, until regulatory treatment is approved, there are
5 going to be items included in rate base that are not
6 technically owned by Pacific Power anymore.

6 A. No, I'm just looking for a different exhibit.

7 Further, my understanding of the exchange was
8 that it is virtually a like-kind -- in-kind exchanges
9 that have very little gap between the value of the
10 assets.

7 **Q. Okay. And that second paragraph reads as**
8 **follows: "In addition, the conversion of PacifiCorp's**
9 **legacy contract transmission service to Idaho Power**
10 **tariff service in the Hurricane and La Grande areas**
11 **provides new flexibility, including the benefits of**
12 **redirecting service, firm service, and all other**
13 **benefits of tariff service."**

11 So to say that the -- to say that there are
12 certain assets included in the WCA that are no longer
13 part of the Pacific Power system is true, but the value
14 of those assets would not necessarily have changed very
15 much.

14 **Did I get that right?**

16 **Q. Well, isn't it true that, in Mr. Twitchell's**
17 **memorandum, Staff certainly acknowledged at that time**
18 **that there would be some change to rates based on the**
19 **exchange?**

15 A. Yes.

16 **Q. So can you tell me where the Hurricane and**
17 **La Grande areas are?**

20 A. Yes.

18 **Well, let me ask you this: Are they in the WCA?**

19 A. I believe so.

20 **Q. So wouldn't it be a fair summary of this data**
21 **response that it discusses benefits from the Idaho Power**
22 **Asset Exchange that would accrue both within and without**
23 **the WCA?**

21 **Q. Okay. And I'm a little puzzled by your comment**
22 **about regulatory lag, because we're here in a rate case**
23 **right now asking that the correct assets that are**
24 **actually serving Washington customers now as a result of**
25 **the exchange be properly reflected in the WCA; is that**

24 A. Yes, that's a fair characterization.

25 **Q. Okay. Thank you.**

EXAMINATION BY MS. RACKNER / BALL

EXAMINATION BY MS. RACKNER / BALL

1 correct?

2 A. Correct. I was just referring to that when this

3 exchange was approved and effected, it did not

4 immediately change rate base in Washington.

5 **Q. And is it your understanding that the Company is**

6 **asking today to update rate base to incorporate the**

7 **assets that were acquired in the WCA?**

8 A. Yes.

9 **Q. Okay. And it's Staff's recommendation that the**

10 **Commission refuse to do so; is that correct?**

11 A. For the time being. The basis of that rationale

12 is principally based on the idea that the Company hasn't

13 reflected the full level of benefits and the full level

14 of costs yet. And part of that has to do with the fact

15 that NPC, net power costs, haven't been updated.

16 And some of this transaction -- some of the

17 effects of this transaction will be realized through net

18 power costs, and some of the benefits of this

19 transaction will be reflected through EEIM.

20 Without an update to NPC, net power costs, we

21 won't be seeing the full level and full impact this

22 transaction may be having on Washington rates. That's

23 why we recommend holding off to evaluate it until

24 there's a time when we actually have -- can evaluate the

25 full level of benefits and costs.

1 transactions has not been included in the power cost

2 **baseline up to this point"; is that correct?**

3 A. That is correct.

4 **Q. So would you agree that the benefits of**

5 **reliability, flexibility and dynamic overlay will show**

6 **up -- or let's put it this way -- may show up through a**

7 **decrease to net power costs?**

8 A. Yes. May show up, yes.

9 **Q. And between rate cases, then those benefits**

10 **would be passed through to customers through the PCAM?**

11 A. They pass through in the form of actuals versus

12 baseline, but they're not reflected in the baseline.

13 **Q. But -- but through the PCAM, customers may well**

14 **receive the benefits; is that correct?**

15 A. Not necessarily. Again, this is -- we're

16 talking about actuals versus rates. The PCAM compares

17 baseline power cost rates with actuals.

18 The benefits from this transaction may appear in

19 the actuals, but they're compared against the baseline

20 rate. So if the baseline rate doesn't have them, and

21 those benefits, all else equal, appear, then it hits --

22 it occurs inside of the deadband when the Company gets

23 to keep the revenue.

24 **Q. And if those benefits would exceed the deadband,**

25 **would you agree with me that customers would receive the**

EXAMINATION BY MS. RACKNER / BALL

EXAMINATION BY MS. RACKNER / BALL

1 I include in here also Staff's additional

2 concerns with this exchange and with the reassignment

3 assets. We support the correction assets, assets which

4 are related to a misallocation, and those do get

5 changed.

6 We just think that in the -- that until such

7 time as the full level of benefits and costs can be

8 reflected, it would be inappropriate to reflect partial

9 amount of the exchange.

10 **Q. Well, let me direct your attention to your**

11 **testimony, page 71, line 15, and I think this gets to**

12 **the point that you're making.**

13 **You state that "The Company does not include the**

14 **benefits associated with flexibility and the resource**

15 **dispatch and wheeling across the PACW and PACE systems**

16 **because there is no change in baseline power costs."**

17 **Is that -- do I have that right?**

18 A. Yes, that's correct.

19 **Q. And in addition, you say, "Reliability benefits**

20 **would appear as avoided market purchases, and therefore**

21 **decreased relative power costs, from dispatch of cheaper**

22 **Jim Bridger power"; is that correct?**

23 A. That's correct.

24 **Q. And then on line 21, you say, "Further, the**

25 **benefit of the dynamic overlay in the form of EIM market**

1 **benefits of the flexibility, the dynamic overlay and**

2 **reliability that I believe even you contemplate may**

3 **result from the transaction?**

4 A. All else equal, it would have to exceed the

5 deadband and then it would reach into the sharing bands

6 where the company -- customers would begin sharing

7 50/50, and then ostensibly into the third band.

8 **Q. And if that were to occur and the Commission**

9 **accepted your recommendation that the investment in the**

10 **Idaho Power Asset Exchange not be included in rates,**

11 **wouldn't there be a mismatch with customers receiving**

12 **the benefits and -- but without paying for the**

13 **investment?**

14 A. It would have to become a very, very big benefit

15 to get to that kind of level. I mean, the baseline

16 power costs -- excuse me, the sharing bands are set at a

17 pretty wide gap around net power costs. We're talking

18 millions of dollars' worth of benefits. And if those

19 millions of dollars of benefits were -- were or are

20 going to be realized, I would have expected the Company

21 to propose a change in that power cost baseline in this

22 case, and I do believe there would be serious eyebrows

23 raised if that ever happened.

24 MS. RACKNER: That's all I have.

25 JUDGE FRIEDLANDER: Thank you.

Page 347

EXAMINATION BY MR. COWELL / BALL

1 Mr. Cowell?

2 *** EXAMINATION BY MR. COWELL ***

3 By MR. COWELL:

4 **Q. Good afternoon, Mr. Ball.**

5 A. Good afternoon.

6 **Q. So Mr. Ball, you've testified that the Company's**

7 **proposed rate plan is a well-designed stay-out period,**

8 **right?**

9 A. I believe those are the words I used, but could

10 you point me to --

11 **Q. No, I can -- I'm referring actually to page 3 of**

12 **your testimony, JBL-1T [sic], page 3, lines 11 and 12.**

13 A. Yes, a well-designed stay-out period with

14 discrete adjustments.

15 **Q. Okay. Now, when you consider a stay-out period,**

16 **what does that term mean to you? What does "stay-out"**

17 **mean?**

18 A. The stay-out period means that the Company would

19 not be filing a general rate case during that period.

20 **Q. Okay. So you've testified that Staff support**

21 **for the proposed rate plan is because it may help change**

22 **or address the trend of continuous Pacific Power rate**

23 **cases, right, following along with what you just said?**

24 **And that, I'm referring to your testimony at**

25 **page 9, lines 4 through 5, also page 10, lines 13 and**

Page 348

EXAMINATION BY MR. COWELL / BALL

1 **14.**

2 A. Yes, that's -- yes.

3 **Q. So would it be fair to say, then, that Staff**

4 **supports the proposed rate plan because the stay-out**

5 **period would reduce rate case, process?**

6 A. That's one of the reasons, yes.

7 **Q. Okay. Mr. Ball, did you review Mr. Dalley's**

8 **rebuttal testimony?**

9 A. Yes.

10 **Q. And do you recall Mr. Dalley testifying that the**

11 **Company would determine whether to accept a modified**

12 **rate plan? You might recall a similar conversation this**

13 **morning.**

14 A. I recall the conversations this morning. I

15 don't have a copy of Mr. Dalley's testimony, I don't

16 believe. Or maybe I do.

17 **Q. If you do have his testimony --**

18 A. I do.

19 **Q. Okay. His rebuttal testimony, RBD-3T at 20 --**

20 **page 20, lines 13 through 14.**

21 A. Yes.

22 **Q. Okay. Now, under circumstances in which the**

23 **Company no longer agreed to a stay-out period, would**

24 **Staff continue to support a multi-year rate plan?**

25 A. We will continue to support it, but if the

Page 349

EXAMINATION BY MR. COWELL / BALL

1 Company doesn't agree to a stay-out period, there's no

2 rate plan.

3 A rate plan -- that's one of the -- one of the

4 primary characteristics of a rate plan is that there is

5 an incentive to the Utility, through some form of annual

6 rate increase or something else, and in exchange, the

7 Company agrees to a stay-out period. Without the

8 stay-out period, I don't believe you have a rate plan.

9 **Q. Okay. Now, you've also testified, in what we**

10 **were just looking at in your testimony in pages 9 and**

11 **10, that the Company's proposed use of end-of-period**

12 **rate base, EOP rate base, may help to change or address**

13 **Pacific Power's trend of continuous rate cases, correct?**

14 A. Correct.

15 **Q. Now, in supporting the Company's current**

16 **proposed use of EOP rate base, did you consider the**

17 **Commission's determination on the Company's proposed use**

18 **of EOP rate base in the last general rate case, the**

19 **Company's last general rate case, UE-140762?**

20 A. Yes.

21 **Q. Okay. What's your understanding of the**

22 **Commission's EOP determination in that case?**

23 A. I believe the Commission did not allow EOP in

24 that case.

25 **Q. Do you recall the basis or any bases?**

Page 350

EXAMINATION BY MR. COWELL / BALL

1 **A. I believe one of the bases was that there was**

2 **only one party who provided analysis supporting it**

3 **besides the Company, and that was -- or excuse me. The**

4 **only party that provided analysis supporting it was the**

5 **Company, and the analysis was thin.**

6 **Q. Now, would it be accurate to say that, in your**

7 **testimony, that you didn't cite to the Commission's EOP**

8 **determination in that case?**

9 A. Yes.

10 **Q. So I'd like to move to another issue.**

11 **On page 31 of your testimony, lines 14 and 15,**

12 **is a reference for confirming that Staff supports the**

13 **Company's decoupling proposal, right?**

14 A. Correct.

15 **Q. And staying on this page, lines 6 and 7, you've**

16 **characterized the Company's proposed decoupling**

17 **mechanism as "designed to separate the recovery of costs**

18 **from the sale of kilowatt hours," correct?**

19 A. Correct.

20 **Q. Now, Mr. Ball, if you turn to page 40 and lines**

21 **8 through 10, you've also testified that "the rate**

22 **design for non-decoupled customers should mirror as**

23 **closely as possible the effects of decoupling," right?**

24 A. Correct.

25 **Q. So that recommendation would apply to Schedules**

Page 351

EXAMINATION BY MR. COWELL / BALL

1 **47 and 48, which are not included in the Company's**
 2 **decoupling proposal, correct?**

3 A. Correct. But as I say on that line, Staff
 4 proposes a cost of service study collaborative that
 5 addresses costs of service and rate design. The
 6 collaborative would convene either -- or I believe we
 7 were hoping the collaborative would convene very shortly
 8 after the conclusion of this case; therefore, we would
 9 be able to take into account the effects of decoupling
 10 if it was approved.

11 **Q. Okay. Let's move on. Last topic, Mr. Ball.**
 12 **If you could turn to page 48 of your testimony,**
 13 **and referring to lines 24 through 26, you expressed**
 14 **Staff's concern over low income impacts without an**
 15 **analysis that you're looking for; is that correct?**

16 A. Correct.

17 **Q. And if you turn the page to page 49, lines 1**
 18 **through 4, you testified that, without detailed**
 19 **analysis, it is actually impossible to determine the**
 20 **sufficiency of low income basis in funding, right?**

21 A. That is correct.

22 **Q. So in your opinion, Mr. Ball, do you think it**
 23 **would be appropriate for the Commission not to increase**
 24 **low income funding given that -- given the absence of**
 25 **impact studies or analysis in this proceeding?**

Page 352

EXAMINATION BY MR. COWELL / BALL

1 **A. I believe I've laid out a recommendation that is**
 2 **the good option for the Commission in increasing low**
 3 **income funding to address the lack of detailed analysis.**
 4 **However, if the Commission believes that more or less**
 5 **funding is necessary, I'm pretty sure that's their**
 6 **decision.**

7 **Q. Would it be accurate to say that Staff**
 8 **recommends low income funding increase precisely**
 9 **because -- and actually, let's hold back a second.**
 10 **Page 49, lines 5 through 8. Start over again.**
 11 **Would it be accurate to say that Staff**
 12 **recommends a low income funding increase precisely**
 13 **because of -- and according to your testimony -- what**
 14 **the Company has shown or, rather, elected not to**
 15 **demonstrate in this proceeding?**

16 A. Yes.

17 MR. COWELL: Thank you, Mr. Ball.
 18 No further questions, your Honor.
 19 JUDGE FRIEDLANDER: Thank you.
 20 Mr. Purdy?
 21 MR. PURDY: Thank you, your Honor. I should
 22 have mentioned this after my cross of Ms. Steward.
 23 Given that we reached an agreement that ended well with
 24 the cross as far as we're concerned, we don't have a
 25 need to cross either Mr. Ball or Ms. Van Meter.

Page 353

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

1 JUDGE FRIEDLANDER: All right. Thank you.
 2 Is there any redirect by Staff?
 3 MS. CAMERON-RULKOWSKI: Yes, your Honor.
 4 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***
 5 BY MS. CAMERON-RULKOWSKI:
 6 **Q. Mr. Ball, would you please refer to Exhibit**
 7 **No. JLB-7CX, and please turn to page 3.**
 8 **Down at the bottom of the page in the section**
 9 **"The rates and risks faced by ratepayers,"**
 10 **Mr. Twitchell's memo states that "the transaction is**
 11 **'financially neutral' to retail customers."**
 12 **Mr. Ball, would you agree that that has turned**
 13 **out to be the case?**

14 A. No. The transaction reflects a revenue
 15 requirement increase as detailed in the Company's direct
 16 testimony.

17 MS. CAMERON-RULKOWSKI: Thank you, Mr. Ball.
 18 No further questions.
 19 MS. RACKNER: If I could, your Honor, I
 20 believe that the Staff just slightly misstated what the
 21 memo says. I don't believe that it's Mr. Twitchell who
 22 said that the -- that the transaction would be
 23 financially neutral. Mr. Twitchell noted that the
 24 Company initially stated that the transaction would be
 25 financially neutral, but then later on provided data

Page 354

EXAMINATION BY COMMISSIONER RENDAHL / BALL

1 requests showing a near-term increase.
 2 So it's just a fine correction, but I think
 3 an important one.
 4 MS. CAMERON-RULKOWSKI: It's correct --
 5 that's correct. The memo stated that it was reflecting
 6 what the Company had stated.
 7 JUDGE FRIEDLANDER: Okay. Thank you.
 8 Are there any Commission questions for
 9 Mr. Ball?
 10 COMMISSIONER RENDAHL: I have just a few,
 11 Mr. Ball.
 12 *** EXAMINATION BY COMMISSIONER RENDAHL ***
 13 BY COMMISSIONER RENDAHL:
 14 **Q. So in terms of the decoupling mechanism and**
 15 **Staff's proposal for a trigger to the proposed**
 16 **decoupling mechanism, is there something unique to**
 17 **public -- to Pacific Power's Washington load and**
 18 **non-power electric service costs that support your**
 19 **recommendation for a trigger as this isn't included in**
 20 **either Avista or PSE's decoupling mechanism?**

21 A. No. We proposed that because, as -- I believe
 22 the phrase that Ms. Steward used was cookie cutter. We
 23 don't really like using cookie cutters to just graft a
 24 mechanism onto a particular company.
 25 What we were looking at in this case was to

Page 355

EXAMINATION BY COMMISSIONER RENDAHL / BALL

1 evaluate this company in the con -- or evaluate this
 2 decoupling mechanism in the context of the Company as
 3 well as in the broader policy goals of Commission Staff
 4 for all the companies.

5 We make minute changes with every decoupling
 6 mechanism and proposals to see and test how these might
 7 affect a decoupling mechanism and how they might affect
 8 a utility's opportunity to earn.

9 The deferral mechanism was an idea to try and
 10 see if we could propose -- propose a decoupling
 11 mechanism, or support a decoupling mechanism while, at
 12 the same time, limiting the number of rate changes that
 13 occur with a traditional decoupling mechanism that PSE
 14 or Avista has where it changes annually.

15 **Q. So in a sense, the trigger proposal is in
 16 response to the experiences you've gained with both
 17 Avista's and PSE's decoupling proposals?**

18 A. That's correct.

19 **Q. Okay. So you heard the questions I asked
 20 Ms. Steward about the PCAM?**

21 A. Yes.

22 **Q. Okay. And I'm not sure they were entirely
 23 clear, so my apologies to Ms. Steward.**

24 **What does -- what do you think -- what does
 25 Staff think of the proposal to include EIM costs in the**

Page 356

EXAMINATION BY COMMISSIONER RENDAHL / BALL

1 **PCAM actuals as Boise and the Company propose?**

2 A. We didn't undertake a detailed review of power
 3 costs in this case, and it's not an issue that I
 4 testified to.

5 Power costs -- we actually think power costs
 6 should just be left alone. We set the baseline -- we
 7 set the baseline very recently, and we don't support
 8 changing the baseline.

9 As far as including actuals, if the EIM is an
 10 actual cost that occurs when the Company is operating
 11 and dispatching power in their system, then it's an
 12 actual cost and it needs to be included in actuals.

13 **Q. Okay. So if the Commission were to approve of
 14 Boise and the Company's proposal, would Staff want to
 15 revisit the inclusion of the fixed production costs and
 16 the PCAM in the Company's next rate case?**

17 A. I'm sorry. What do you mean by "fixed
 18 production costs"?

19 **Q. The fixed power costs.**

20 A. I'm having a little trouble understanding. I
 21 think there might be some confusion here. I don't
 22 believe the Company has proposed to include fixed power
 23 costs in the PCAM at all.

24 The way I understand it is, the PCAM
 25 incorporates only variable costs, similar to what was

Page 357

EXAMINATION BY COMMISSIONER RENDAHL / BALL

1 recently proposed with the PSE mechanism and what is
 2 currently in operation with the Avista mechanism.

3 Fixed power costs or fixed production related
 4 costs would flow through with the decoupling mechanism.

5 COMMISSIONER RENDAHL: Okay. Thanks.
 6 That's all I have.

7 JUDGE FRIEDLANDER: Okay. Thank you.
 8 I believe that's it. You're excused. Thank
 9 you very much.

10 Why don't we discuss what to do about the
 11 end of today and whether we're going to be going
 12 tomorrow. Let's go off the record to do that.

13 (A break was taken from
 14 4:32 p.m. to 4:43 p.m.)

15 JUDGE FRIEDLANDER: We're ready to go back
 16 on the record.

17 And we have Ms. Huang. Okay.
 18 MS. CAMERON-RULKOWSKI: Your Honor, it
 19 sounds like, since there are no questions for
 20 Ms. Van Meter, can she be excused?

21 JUDGE FRIEDLANDER: Yes. Yes. Thank you.
 22 MS. CAMERON-RULKOWSKI: Thank you.

23 JUDGE FRIEDLANDER: And before we -- we are
 24 back on the record now, so before we get into additional
 25 testimony, Mr. ffitch, if you wanted to give that Utah

Page 358

1 citation.

2 MR. FFITCH: Yes, your Honor. Thank you.
 3 The Utah statute that was referenced is
 4 Session Law, Chapter 393, Enrolled Senate Bill 115,
 5 signed on March 29, 2016, effective May 10, 2016.

6 JUDGE FRIEDLANDER: Thank you.
 7 MR. FFITCH: Thank you, your Honor. And
 8 it's my understanding that official notice is being
 9 taken of that.

10 JUDGE FRIEDLANDER: Yes, that's correct.
 11 And as agreed to prior to the testimony beginning, all
 12 of the exhibits on the exhibit list, including the
 13 cross-exam exhibits, have been admitted.

14 So Ms. Huang, if you would stand up and
 15 raise your right hand.

16
 17 JOANNA HUANG, witness herein, having been
 18 first duly sworn on oath,
 19 was examined and testified
 20 as follows:

21
 22 JUDGE FRIEDLANDER: Thank you. You can be
 23 seated.

24 MR. BEATTIE: Thank you, Judge Friedlander.
 25 ///

Page 359

EXAMINATION BY MR. BEATTIE / HUANG
 *** EXAMINATION BY MR. BEATTIE ***
 BY MR. BEATTIE:
Q. Ms. Huang, could you please state and spell your name for the record?
 A. My name is Joanna, J-O-A-N-N-A, last name H-U-A-N-G.
Q. What is your position with the Commission?
 A. Regulatory analyst.
Q. Are you the same Joanna Huang who filed pre-filed responsive testimony in this case?
 A. Yes.
Q. Is that testimony JH-1T?
 A. Yes.
Q. And in the course of your direct testimony, JH-1T, you refer to Exhibits JH-2 through JH-6?
 A. Yes.
Q. Were these exhibits prepared by you?
 A. Yes.
Q. Do you have any corrections to either your exhibits or your direct -- or excuse me, your direct responsive testimony?
 A. No.
Q. Do you affirm that testimony as though you were repeating it here today?
 A. Yes.

Page 360

EXAMINATION BY MR. COWELL / HUANG
 MR. BEATTIE: Thank you.
 Ms. Huang is available for cross-examination and for questioning from the bench.
 JUDGE FRIEDLANDER: Thank you. And I believe that it's Mr. Cowell.
 MR. COWELL: Thank you, your Honor.
 *** EXAMINATION BY MR. COWELL ***
 BY MR. COWELL:
Q. Good afternoon, Ms. Huang.
 A. Good afternoon.
Q. So Ms. Huang, if you would start by turning to page 3 of your testimony, lines 19 and 20.
 A. Yes.
Q. Now, you testified that plant and service balances at EOP levels are a more accurate reflection of rate base balances during the rate year in comparison to an average of monthly averages, or AMA, the AMA approach, correct?
 A. Yes.
Q. Now, in support of your position, did you discuss your cite to the Commission's determination on the Company's EOP proposal in Pacific Power's last general rate case?
 A. No.
Q. Are you familiar with that determination in the

Page 361

EXAMINATION BY MR. COWELL / HUANG
last general rate case?
 A. It's the four factors?
Q. Correct. We were discussing it earlier, right?
 A. Yeah.
Q. Now, do you think, Mrs. Huang, that the Commission's determination on the Company's use of EOP rate base in Pacific Power's general rate case is something that should be considered in this proceeding?
 A. Yes.
Q. If you could turn to the next page of your testimony, page 4, lines 1 through 4.
 Now, you believe that Mr. Dalley and Ms. McCoy have adequately supported the Company's EOP proposal in this case, correct?
 A. Yes.
Q. And in support of your opinion, in footnotes 1 and 2 of your testimony, I count that you cite to five pages of direct testimony for Mr. Dalley and Ms. McCoy; is that accurate?
 A. Yes.
Q. Now, if you would turn to page 9 of your testimony, please, lines 6 and 7.
 Now, you were also asked in your testimony whether the Company had adequately supported its accelerated depreciation proposal; is that correct?

Page 362

EXAMINATION BY MR. COWELL / HUANG
 A. Yes.
Q. And your answer to that question was no, right?
 A. That's correct.
Q. Okay. And you went on to testify that the Company supported its accelerated depreciation proposal with only cursory and qualitative testimony by Mr. Dalley and Ms. McCoy; is that correct?
 A. Yes.
Q. Now, this statement of your testimony was supported by footnote 16, right, on page 9?
 A. Yes.
Q. Now, as I calculate here on page -- on footnote 16, you cited to six pages of testimony from Mr. Dalley and Ms. McCoy to support your position, right?
 A. That's true.
Q. Okay. Now, going back again to the five pages of Company testimony you cited to support for testimony that Pacific Power had adequately supported its EOP proposal, do those five pages not constitute cursory and qualitative testimony?
 In other words, what I'm trying to get at it, it would seem on face value to be about the same amount of testimony. In one, you have testified that it was adequate support, and the other one you said was merely cursory and qualitative testimony.

Page 363

EXAMINATION BY MR. COWELL / HUANG

1 **Does that make sense?**

2 A. The reason I don't support the accelerated

3 depreciation is, the main factor, the Company proposed

4 only two. One is to align for Oregon's depreciation,

5 and the other one is for flexible resources planning.

6 So it's very skimpy to me.

7 **Q. Okay. So in substance, even though it's about**

8 **the same amount of testimony, you think there's a**

9 **significant difference; is that correct then?**

10 A. Yes. And then they don't have -- they didn't

11 provide the depreciation study for this purpose.

12 **Q. So staying here on page 9, Ms. Huang, lines 13**

13 **through 17, you quoted, and even included as an exhibit,**

14 **what you described as a candid response from the Company**

15 **stating that Pacific Power has not done any analysis or**

16 **studies in its evaluation of whether to shorten**

17 **depreciable lives of Jim Bridger and Colstrip units in**

18 **its current filing; is that accurate?**

19 A. Yes.

20 **Q. And if you would turn to page 11, lines 8**

21 **through 10, please.**

22 **You offer the opinion that the Company failed to**

23 **justify its accelerated depreciation schedule, right?**

24 A. Yes.

25 **Q. And in lines 13 through 14 on that page, you**

Page 364

EXAMINATION BY COMMISSIONER JONES / HUANG

1 **also recommend that the Commission should postpone any**

2 **adjustments related to accelerated depreciation until**

3 **the Company updates its depreciation study, right?**

4 A. Yes.

5 **Q. Okay. So do you think it would be appropriate**

6 **to approve the Company's proposal, though, considering**

7 **the schedule in this proceeding is accelerated?**

8 A. In this proceeding?

9 **Q. Yeah. On the basis that it's accelerated?**

10 A. No.

11 **Q. Okay.**

12 MR. COWELL: Actually that's -- no further

13 questions.

14 Thank you, Ms. Huang.

15 JUDGE FRIEDLANDER: Thank you. Are there

16 any -- I should ask for redirect.

17 MR. BEATTIE: No redirect, your Honor.

18 Thank you.

19 JUDGE FRIEDLANDER: Thank you.

20 Any questions from the bench?

21 CHAIRMAN DANNER: No.

22 *** EXAMINATION BY COMMISSIONER JONES ***

23 BY COMMISSIONER JONES:

24 **Q. Ms. Huang, Commissioner Jones here. Were you**

25 **here this morning when commissioners and others were**

Page 365

EXAMINATION BY COMMISSIONER JONES / HUANG

1 **asking questions of Mr. Dalley?**

2 A. Yes.

3 **Q. Was there anything on the -- you spent a great**

4 **deal of time on these two issues, alignment and**

5 **flexibility.**

6 A. Yes.

7 **Q. Was there anything that you heard this morning**

8 **that caused you to change your opinion on the alignment**

9 **issue?**

10 A. No, I will not change my position.

11 **Q. And when is the new depreciation study scheduled**

12 **to be delivered to Commission Staff?**

13 A. Usually they file every five years, so last time

14 it was in 2013, so I assume they will file in 2018.

15 COMMISSIONER JONES: That's all I have.

16 Thanks.

17 JUDGE FRIEDLANDER: Thank you.

18 Okay. Thank you. You're excused.

19 Thank you. And I believe we have

20 Ms. O'Connell next.

21

22 ELIZABETH O'CONNELL, witness herein, having been

23 first duly sworn on oath,

24 was examined and testified

25 as follows:

Page 366

EXAMINATION BY MS. CAMERON-RULKOWSKI / O'CONNELL366

1 JUDGE FRIEDLANDER: Thank you. Please be

2 seated.

3 Ms. Cameron-Rulkowski?

4 MS. CAMERON-RULKOWSKI: Thank you,

5 your Honor.

6 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

7 BY MS. CAMERON-RULKOWSKI:

8 **Q. Good afternoon, Ms. O'Connell.**

9 A. Good afternoon.

10 **Q. Would you please state your full name?**

11 A. My name is Elizabeth O'Connell. It's

12 E-L-I-Z-A-B-E-T-H, capital O, apostrophe, capital

13 C-O-N-N-E-L-L.

14 **Q. Pull the microphone a little closer to you if**

15 **you could.**

16 **Where are you employed, Ms. O'Connell?**

17 A. I'm employed with the Washington State Utilities

18 and Transportation Commission.

19 **Q. And what is your position with the Commission?**

20 A. I'm a regulatory analyst.

21 **Q. Please direct your attention to Exhibit**

22 **No. ECO-1T.**

23 **Is this testimony that you prepared on behalf of**

24 **Staff in response to Pacific Power's pre-filed direct**

25 **testimony?**

EXAMINATION BY MR. LOWNEY / O'CONNELL

EXAMINATION BY MR. LOWNEY / O'CONNELL

1 **A. Yes, it is.**
2 **Q. And in the course of your direct testimony, you**
3 **referred to Exhibits ECO-2 through ECO-9.**

1 **Washington -- of the costs associated with Washington**
2 **projects to the revenue requirement, correct?**
3 **A. That is correct.**

4 **Do you have any corrections to be made to your**
5 **testimony or to your exhibits?**

4 **Q. Okay. So I think -- I just wanted to make sure**
5 **we're all on the same page.**

6 **A. I have a correction to make to my testimony.**
7 **On page 32, line 11, it reads the "West Control**
8 **Area," and it should read "Washington."**

6 **And so based on -- on the two corrections that**
7 **have happened, both in Mr. Ball's testimony and to your**
8 **own, you would agree that, under your proposal,**
9 **Washington customers would pay 100 percent of the**

9 **Q. Thank you. And were all of these exhibits**
10 **prepared by you?**

9 **remediation costs associated with projects that are**
10 **physically located within the state of Washington,**
11 **correct?**

11 **A. Yes, they were.**

11 **A. On non-major projects, environmental projects**
12 **that are located in Washington, yes.**

12 **MS. CAMERON-RULKOWSKI: Ms. O'Connell is**
13 **available for cross-examination and for questions from**
14 **the bench.**

12 **Q. And to be clear, Washington customers would pay**
13 **no costs for any environmental remediation project**
14 **that's not located in Washington, correct?**

15 **JUDGE FRIEDLANDER: Okay. Thank you.**

15 **A. For any non-major environmental remediation**
16 **projects that are not located in Washington, yes.**

16 ***** EXAMINATION BY MR. LOWNEY *****

16 **Q. Okay. If you could turn to your exhibit, it's**
17 **ECO-7, and this exhibit identifies the remediation**
18 **projects that you include in your adjustment.**

17 **BY MR. LOWNEY:**

17 **And just to give everybody a frame of reference,**
18 **there's four projects at the top of this table that are**
19 **all identified as Washington projects, and those are the**

18 **Q. Ms. O'Connell, my name is Adam Lowney. I'm**
19 **counsel for Pacific Power. Good afternoon.**

18 **A. Good afternoon.**

20 **A. Good afternoon.**
21 **Q. So I actually -- I just have a few questions**
22 **about your environmental remediation adjustment.**

20 **Q. Okay. If you could turn to your exhibit, it's**
21 **ECO-7, and this exhibit identifies the remediation**
22 **projects that you include in your adjustment.**

23 **So the first one is, I just want to make sure**
24 **we're clear on the correction you just made. So your**
25 **original proposal, at least as it was stated in lines 10**

23 **And just to give everybody a frame of reference,**
24 **there's four projects at the top of this table that are**
25 **all identified as Washington projects, and those are the**

EXAMINATION BY MR. LOWNEY / O'CONNELL

EXAMINATION BY MR. LOWNEY / O'CONNELL

1 **and 11, was to include all environmental remediation**
2 **expenses for projects that are located in the West**
3 **Control Area, and now you would just include projects**
4 **that are located in Washington; is that correct?**

1 **four projects that you include in your revenue -- in**
2 **Staff's revenue requirement, correct?**
3 **A. That is correct.**

5 **A. That is correct.**

4 **Q. And all the projects at the bottom of the table**
5 **you exclude from your revenue requirement, correct?**

6 **Q. Okay. And I just wanted to -- just to make sure**
7 **we're all on the same page, there was another correction**
8 **that relates to your adjustment that was included in**
9 **Mr. Ball's revenue requirement exhibit that was filed on**
10 **Friday; is that correct?**

6 **A. That is correct.**
7 **Q. And just looking, for instance, at the last**
8 **three projects that are located -- or that are at the**
9 **bottom of this table, they relate to the Bridger -- the**
10 **Jim Bridger generating plant and coal mine; is that**
11 **correct?**

11 **A. That is correct.**

11 **A. That is correct.**

12 **Q. And just for frame of reference, that would be**
13 **Exhibit JLB-2R, and it's page 52?**

12 **A. That is correct.**
13 **Q. And your position is that Washington customers**
14 **should pay no remediation costs associated with the**
15 **Bridger plant because it's not located in Washington,**
16 **correct?**

14 **A. I believe so, yeah.**

16 **A. That is correct.**

15 **Q. That's correct?**

17 **A. That is correct.**

16 **A. That's correct.**

18 **Q. Now, you agree that the Bridger plant does serve**
19 **Washington customers and is included in rates under the**
20 **WCA methodology, right?**

17 **Q. And just so we -- to make sure I understand this**
18 **adjustment or this correction, in the original exhibit**
19 **you had taken -- or Mr. Ball had taken -- I'm not sure**
20 **who -- the remediation costs for projects located in**
21 **Washington, and then you had applied the SO factor to**
22 **those costs in calculating the revenue requirement,**
23 **correct?**

20 **A. Correct.**
21 **Q. But under your proposal, Washington customers**
22 **receive that benefit but don't pay any costs associated**
23 **with remediation efforts?**

24 **A. That was initially filed, yes.**

24 **A. That is correct.**

25 **Q. And now you're allocating 100 percent of the**

Page 371

EXAMINATION BY MR. COWELL / O'CONNELL

1 Q. And you believe that that satisfies the
 2 Commission's standards for cost causation related to
 3 interstate allocation of costs?
 4 A. In this case, it does.
 5 **Q. How so?**
 6 A. Um, basically, ratepayers in the state of
 7 Washington have no control over the decisions that led
 8 to these environmental projects, so I believe that
 9 it's -- the approach that I'm taking is a better
 10 approach for this particular project.
 11 MR. LOWNEY: Thank you, Ms. O'Connell.
 12 That's all the questions I have.
 13 JUDGE FRIEDLANDER: Thank you.
 14 Mr. Cowell?
 15 MR. COWELL: Thank you, your Honor.
 16 *** EXAMINATION BY MR. COWELL ***
 17 BY MR. COWELL:
 18 **Q. Good afternoon, Ms. O'Connell.**
 19 A. Good afternoon.
 20 **Q. So Ms. O'Connell, if you would turn, please, to**
 21 **page 6 of your testimony and lines 3 and 4.**
 22 A. Um-hmm.
 23 **Q. Okay. Now, you've testified that the Commission**
 24 **only allows pro forma adjustments that give effect for**
 25 **the test period to all known and measurable changes that**

Page 372

EXAMINATION BY MR. COWELL / O'CONNELL

1 **are not offset by other factors, correct?**
 2 A. Correct.
 3 **Q. And on lines 13 and 14, you then explain that**
 4 **"An offsetting factor is any factor that diminishes the**
 5 **effect of a known and measurable event," right?**
 6 A. Correct.
 7 **Q. And same page, lines 14 and 15, you even**
 8 **testified that the exclusion of offsetting factors**
 9 **creates a mismatch in that a known and measurable --**
 10 **known and measurable changes are either overstated or**
 11 **understated, correct?**
 12 A. Correct.
 13 **Q. Now, if you'd turn, please, to page 8 of your**
 14 **testimony, lines 19 and 20.**
 15 **You have testified that certain pro forma**
 16 **adjustments are appropriate for inclusion in the second**
 17 **year of the Company's proposed rate plan, right?**
 18 A. Correct.
 19 **Q. Okay. And same page, lines 23 through 25, in**
 20 **support of this position, you explain that "Staff will**
 21 **have an opportunity following the Company's attestation**
 22 **filing to review the final costs for both projects**
 23 **before any costs are included in the 2017 rate year,"**
 24 **right?**
 25 A. Yes.

Page 373

EXAMINATION BY MR. COWELL / O'CONNELL

1 Q. Now, Staff anticipates that this attestation
 2 period would last about 60 days; is that right?
 3 A. I believe so, subject to provision, yeah.
 4 **Q. Now, during this 60-day attestation period,**
 5 **would Staff also be reviewing any offsetting factors**
 6 **that might diminish the effect of known and measurable**
 7 **costs to be included in the second rate year period**
 8 **[sic]?**
 9 A. I believe so, that we could review any potential
 10 offsetting factors. But at this point, Staff doesn't
 11 have any reason to believe that there will be an
 12 offsetting factor.
 13 **Q. So in terms of -- I'm sorry.**
 14 A. So given that -- we don't expect that to happen,
 15 but we could review the possibilities of any offsetting
 16 factor in the future, yeah.
 17 **Q. And that would apply to all parties, right, by**
 18 **your testimony, could review any offsetting factors**
 19 **during that attestation period?**
 20 A. I would defer the answer to that question to
 21 Mr. Ball to be more precise.
 22 **Q. Okay. But your testimony is that Staff could --**
 23 A. Yes.
 24 **Q. -- is that correct?**
 25 A. Yes.

Page 374

EXAMINATION BY MR. COWELL / O'CONNELL

1 Q. Okay. So in preparation for your testimony in
 2 this proceeding, you familiarized yourself with the
 3 Commission's known and measurable standards; is that
 4 true?
 5 A. Yes.
 6 **Q. Okay. And on page 8 of your testimony, do you**
 7 **see lines 3 to through 12, you provided a block quote as**
 8 **to how the Commission described this standard, right?**
 9 A. Yes.
 10 **Q. Okay. Now, have you reviewed the testimony of**
 11 **Mr. Mullins?**
 12 A. I believe so, yeah.
 13 **Q. Okay. Do you have a copy with you there?**
 14 A. I don't have a copy with me.
 15 **Q. Let me maybe ask it this way.**
 16 **In your -- in your block quote, are you aware**
 17 **that you omitted the last sentence from that paragraph**
 18 **that you cited?**
 19 A. Can you rephrase that?
 20 **Q. In the block quote, lines 3 through 12 on page**
 21 **of 8 of your testimony, are you aware that there's one**
 22 **more sentence in the paragraph that you cited there?**
 23 A. I am not aware of that, no.
 24 **Q. Okay.**
 25 MR. COWELL: No further questions,

Page 375

EXAMINATION BY MS. CAMERON-RULKOWSKI / O'CONNELL375

1 your Honor. Thank you.

2 JUDGE FRIEDLANDER: Thank you.

3 Does Staff have any redirect?

4 MS. CAMERON-RULKOWSKI: I do, your Honor.

5 *** EXAMINATION BY MS. CAMERON-RULKOWSKI ***

6 BY MS. CAMERON-RULKOWSKI:

7 **Q. Ms. O'Connell, I'm going to refer you back to**

8 **ECO-7.**

9 **You were asked about the projects below the --**

10 **all of the projects below Washington. And what I would**

11 **like to ask you about those projects is, are those**

12 **projects major environmental remediation projects or**

13 **non-major environmental remediation projects?**

14 A. According to the Company, they're non-major

15 remediation -- environmental remediation projects.

16 **Q. Now, what is the source of the definition of**

17 **"major"?**

18 A. The definition of "major" environmental project

19 comes from the Order UE -- UE-031658, where it is

20 defined that "Any environmental projects that involve a

21 total Company expenditure of more than \$3 million

22 systemwide are defined as major environmental projects."

23 MS. CAMERON-RULKOWSKI: Thank you. That's

24 all I have.

25 JUDGE FRIEDLANDER: Thank you.

Page 376

EXAMINATION BY MS. CAMERON-RULKOWSKI / O'CONNELL376

1 Are there any questions from the bench?

2 CHAIRMAN DANNER: No questions.

3 COMMISSIONER JONES: No questions.

4 COMMISSIONER RENDAHL: No.

5 JUDGE FRIEDLANDER: Okay. Then you're

6 excused. Thank you so much for your testimony.

7 THE WITNESS: Thank you.

8 JUDGE FRIEDLANDER: I believe the

9 commissioners may have had -- or Commissioner Rendahl,

10 did you have a question for Ms. Ramas? Is it Ramas --

11 Mr. ffitch, is it "Raymas" or "Ramas"?

12 MS. RAMAS: Ramas.

13 COMMISSIONER JONES: I do.

14 JUDGE FRIEDLANDER: Thank you.

15 MR. FFITCH: You don't want to get that

16 wrong.

17 COMMISSIONER RENDAHL: I think actually

18 Commissioner Jones has questions.

19 JUDGE FRIEDLANDER: Okay. If you would

20 approach the witness stand.

21

22 DONNA M. RAMAS, witness herein, having been

23 first duly sworn on oath,

24 was examined and testified

25 as follows:

Page 377

EXAMINATION BY COMMISSIONER JONES / RAMAS

1

2 JUDGE FRIEDLANDER: Thank you. You can be

3 seated.

4 Commissioner Jones?

5 *** EXAMINATION BY COMMISSIONER JONES ***

6 BY COMMISSIONER JONES:

7 **Q. Good afternoon, Ms. Ramas.**

8 A. Good afternoon.

9 **Q. Thank you for your patience. We're just nearing**

10 **the end, I think.**

11 A. Happy to be here.

12 **Q. In your testimony, and I think it is in pages --**

13 **what is your exhibit?**

14 A. I believe it's DMR-1T.

15 **Q. Yeah, DMR-1T.**

16 **So starting on page 29, you suggest the**

17 **Commission determine that a regulatory liability account**

18 **should be established, correct?**

19 A. Actually, my primary recommendation is that no

20 change be made at this time.

21 **Q. Correct, yeah.**

22 A. But if the Commission determines that some

23 action should be taken as part of this case, then the

24 preferred approach would be to set up a regulatory

25 liability as opposed to putting changes in depreciation

Page 378

EXAMINATION BY COMMISSIONER JONES / RAMAS

1 rights that would result in depreciation no longer being

2 based on the current anticipated life of the plan.

3 **Q. Okay. Yes, I realize that this is your**

4 **alternative recommendation.**

5 A. Yes.

6 **Q. Okay. And before we get to the details of that,**

7 **I have a few detailed questions.**

8 **On the Oregon -- you were here this morning, and**

9 **I think a few of us asked questions about the Oregon**

10 **Public Utility Commission's decision in 2008 to track**

11 **incremental depreciation expenses for out-of-state coal**

12 **units in this manner.**

13 **Did you hear anything -- have you been involved**

14 **in those cases?**

15 A. No, but I did go back and read the order in that

16 past Oregon case, as well as some of the exhibits that

17 have been submitted in those cases.

18 And it's my understanding that they didn't set

19 up a regulatory liability, but what they did is actually

20 went back to the previous depreciation lives. So they

21 did actually change that depreciation rates that are

22 being used in Oregon.

23 **Q. Okay. Thank you.**

24 **And then you go on to say that a separate**

25 **proceeding would probably be best to get into the**

Page 379

EXAMINATION BY COMMISSIONER JONES / RAMAS

1 details of how to establish this regulatory liability
 2 account if we choose to do so?

3 A. Yes, absolutely.

4 **Q. So have you reviewed -- have you had a chance to**
 5 **review Staff's proposal to require what I call D and R,**
 6 **decommissioning and remediation reporting? Is there**
 7 **information that the Commission would need in order to**
 8 **set the amount for recovery through such a regulatory**
 9 **liability account?**

10 A. Yeah. I think the decommissioning and
 11 remediation concern was different from the
 12 depreciation-type issue. I believe Staff had a concern
 13 that, based on the current depreciation, assumed
 14 depreciation lives, that there may not be enough
 15 decommissioning and remediation being built up at this
 16 time. So that -- I viewed that as a little bit of a
 17 different issue.

18 But as part of any case where you look at these
 19 assets and whether or not some sort of advanced funding
 20 should occur, as part of that, certainly I would
 21 recommend looking at the current remediation funds and
 22 decommissioning funds that have been collected as part
 23 of that.

24 **Q. Have you had a chance to review the Staff**
 25 **investigation report on Colstrip Units 1 and 2 that**

Page 380

EXAMINATION BY COMMISSIONER JONES / RAMAS

1 **Staff did on D and R, on decommissioning and**
 2 **remediation? Have you seen that?**

3 A. I have seen it, and I read it, but I have to be
 4 honest that it's not real fresh in my mind at the
 5 moment.

6 **Q. Well, my sense is it would be something like**
 7 **that. It would cover a whole range of issues both on**
 8 **the decommissioning of the plant and then the wastewater**
 9 **ponds and other EPA regulations on coal residuals, and**
 10 **it would probably look something like that. But the**
 11 **Company -- the burden would be on the Company to prepare**
 12 **that report.**

13 **And is that something you agree with in this**
 14 **regulatory proceeding is that the Company should prepare**
 15 **such a report?**

16 A. Yes. The Company has the burden of
 17 demonstrating what its current projections of the
 18 remediation and decommissioning costs would be. And I
 19 would hope that, as part of any future depreciation
 20 cases, that that would all be factored into and
 21 considered as part of the setting and determination of
 22 the depreciation rights going forward.

23 But again, if the Commission determines that,
 24 instead of doing this through the next depreciation case
 25 that they would rather do something sooner -- and again,

Page 381

EXAMINATION BY COMMISSIONER JONES / RAMAS

1 that's not my recommendation --

2 **Q. Right.**

3 A. -- but if that was what the Commission wanted, I
 4 would assume that, as part of that, they should direct
 5 the Company to file that sort of information. That
 6 would be considered as part of it.

7 **Q. Yes. And again, I realize you recommend this as**
 8 **an alternative, not as your primary recommendation, but**
 9 **in that report would be included things like accounting**
 10 **type mechanisms, like an ARO, an asset retirement**
 11 **obligation, and things like that, right?**

12 A. Yeah. That's all items that are considered as
 13 part of the depreciation rates, too. But if you're
 14 looking to set up a separate regulatory liability type
 15 approach, then you probably should consider all that as
 16 part of determining what amount should be collected
 17 through the regulatory liability.

18 **Q. And then would it be reasonable to create and**
 19 **start funding such a regulatory liability in this**
 20 **case -- again, I realize it's an alternative -- and then**
 21 **adjust the amount collected annually after considering**
 22 **the D and R reports?**

23 A. I wouldn't recommend doing it as part of this
 24 case because, in my opinion, there hasn't really been
 25 enough evidence offered by the Company at this point to

Page 382

EXAMINATION BY COMMISSIONER JONES / RAMAS

1 justify what a reasonable amount to start collecting
 2 would be based on any sort of economic study or
 3 analysis, or plant life analysis.

4 **Q. So --**

5 A. And I wouldn't recommend changing it on an
 6 annual basis.

7 **Q. No?**

8 A. Yeah.

9 **Q. Okay. So how would we go about picking an**
 10 **initial amount? Can you list some criteria that we**
 11 **should look at?**

12 A. Um, I intentionally did not recommend a specific
 13 amount because it's my opinion that there really isn't
 14 enough information in this case to determine what a
 15 reasonable amount would be.

16 We still -- the Company's current plans, as of
 17 responding to discovery in this case for these plants,
 18 are the service lives that are currently rolled into the
 19 current depreciation rates.

20 So I haven't seen anything to base a regulatory
 21 liability on different assumptions or periods. I wish I
 22 had better guidance in that, but it's my opinion that
 23 there hasn't been enough economic analysis and study
 24 offered in this case to come up with a regulatory
 25 liability amount. It would have to be completed at the

Page 383

EXAMINATION BY COMMISSIONER JONES / RAMAS

1 Commission's discretion, and I really don't know what
2 you would base that on.

3 **Q. Right. But you did have a chance to review, and**
4 **I think you go into it in some detail in your testimony,**
5 **the depreciation study for the Bridger -- especially for**
6 **the Bridger and the Colstrip 3 units in the 2013**
7 **depreciation study, did you not?**

8 A. Yes, I did. And in fact, the adjustments I
9 recommend in this case would reflect those rates that
10 were approved in that study.

11 **Q. Okay.**

12 A. And again, if those rates stay in effect as a
13 result of this case, then I'm not sure, you know, if you
14 continue collecting at that pace until a future date.
15 I'm not sure you need to establish a regulatory
16 liability at this time as a result of this case.

17 **Q. No, I understand that, but I -- I'll finish**
18 **here.**

19 **Your recommend -- or your analysis is that, in**
20 **this case, it is difficult to find sufficient vetted**
21 **information, both on depreciation and all the other**
22 **liabilities associated with Colstrip 3 and Bridger, to**
23 **set up a regulatory liability account right now?**

24 A. Yeah, that would be my opinion.

25 **Q. Okay.**

Page 384

EXAMINATION BY MR. FFITCH / RAMAS

1 **COMMISSIONER JONES: Thank you.**

2 **JUDGE FRIEDLANDER: Thank you. Are there**
3 **any other questions?**

4 **All right. And I inadvertently preempted**
5 **Mr. ffitch from laying his foundation. I did not do**
6 **that intentionally. So if you would like to make any**
7 **corrections on the record to your witness's testimony, I**
8 **believe we're using the April 4th filed testimony as the**
9 **most current for this witness.**

10 ***** EXAMINATION BY MR. FFITCH *****

11 BY MR. FFITCH:

12 **Q. Yes. I'll just ask the witness to confirm that**
13 **that April 4th version of the testimony is the version**
14 **that's presented to the Commission.**

15 A. Yes, it is.

16 **Q. And do you have any changes or corrections to**
17 **that testimony?**

18 A. No, I do not.

19 MR. FFITCH: I'll -- unless you'd like me to
20 go through --

21 JUDGE FRIEDLANDER: You did that very well.
22 No, that's fine. Thank you. Thank you. I appreciate
23 it.

24 And with no further questions, you're
25 excused. Thank you for your testimony.

Page 385

EXAMINATION BY MR. COWELL / MULLINS

1 THE WITNESS: Thank you.

2 JUDGE FRIEDLANDER: One more witness.
3 Mr. Mullins?

4

5 BRADLEY G. MULLINS, witness herein, having been
6 first duly sworn on oath,
7 was examined and testified
8 as follows:

9

10 JUDGE FRIEDLANDER: Thank you. You can be
11 seated. Mr. Cowell?

12 MR. COWELL: Thank you, your Honor.

13 ***** EXAMINATION BY MR. COWELL *****

14 BY MR. COWELL:

15 **Q. For the record, Mr. Mullins, could you please**
16 **state and spell your full name?**

17 A. Yes. My name is Bradley Mullins, spelled
18 B-R-A-D-L-E-Y, last name M-U-L-L-I-N-S.

19 **Q. And how are you employed, Mr. Mullins?**

20 A. I am a consultant that represents large energy
21 users throughout the West.

22 **Q. And in this role, did you prepare testimony and**
23 **exhibits on behalf of Boise White Paper, LLC?**

24 A. I did.

25 **Q. And are those Exhibits BGH-1CT through BGM-11,**

Page 386

EXAMINATION BY MR. LOWNEY / MULLINS

1 **including revised versions of BGM-3 and BGM-11?**

2 A. They are.

3 **Q. And Mr. Mullins, do you have any changes or**
4 **corrections to your testimony or exhibits?**

5 A. I'll make one slight change to my direct
6 testimony.

7 On page 27 of Exhibit No. BGM-1CT, there's a
8 Table 3 at the top of that page -- and I'll let folks
9 get there -- and I just wanted to clarify that those
10 numbers are on a Washington allocated basis. So the
11 title should read "Colstrip Unit 3, O&M (Washington
12 Allocated)."

13 Q. Any other corrections, Mr. Mullins, or changes?
14 A. No.

15 **Q. So Mr. Mullins, if I were to ask you the same**
16 **questions today in your exhibits -- I mean in your**
17 **testimony, would your answers be the same?**

18 A. Yes.

19 MR. COWELL: Thank you, your Honor. I
20 believe the witness is available for cross-examination.

21 JUDGE FRIEDLANDER: Thank you.

22 MR. LOWNEY: Thank you, your Honor.

23 ***** EXAMINATION BY MR. LOWNEY *****

24 BY MR. LOWNEY:

25 **Q. Good morning, Mr. Mullins.**

Page 387

EXAMINATION BY MR. LOWNEY / MULLINS

1 **A. Good afternoon.**

2 **Q. I'd like to first start by asking a few**

3 **questions about the Company's proposed rate plan.**

4 **So just to get us all on the same page, you**

5 **would agree that the Company has proposed a second-year**

6 **rate increase in this case, correct?**

7 A. The Company has proposed a second-year rate

8 increase, correct.

9 **Q. And if you could turn to page 9 of your response**

10 **testimony, please.**

11 A. Okay.

12 **Q. Now, directing your attention to lines 5 through**

13 **10 on that page, you oppose the Company's requested**

14 **second-year rate increase because the Company has not**

15 **performed an attrition study; is that correct?**

16 A. Correct. So without such an analysis, it's not

17 possible for us to demonstrate persuasively that there's

18 attrition outside of the Company's control.

19 **Q. And in those same lines of testimony, you**

20 **specifically contrast the Company's approach in this**

21 **case with Avista's approach in its 2015 rate case, where**

22 **that company did rely on an attrition study, correct?**

23 A. Correct.

24 **Q. And you testified in that Avista case also; is**

25 **that correct?**

Page 388

EXAMINATION BY MR. LOWNEY / MULLINS

1 **A. I did.**

2 **Q. Now, if you could just turn to**

3 **Cross-Exhibit 12CX.**

4 A. Okay.

5 **Q. And this is an excerpt from your testimony in**

6 **that Avista case; is that correct?**

7 A. Correct.

8 **Q. Okay. If you could turn to -- it's page 2 of**

9 **the exhibit, which is page 12 of the original testimony.**

10 **And beginning on line 3 on page 2 of the**

11 **exhibit, you testify regarding Avista's use of a**

12 **trend-based revenue requirement methodology used in**

13 **their attrition study; is that correct?**

14 A. Yes.

15 **Q. Now, beginning down on line 5 of page 2, you**

16 **testified that one of the consequences of using an**

17 **attrition study is that "a utility that is working hard**

18 **to reduce its costs and prioritize capital expenditures**

19 **could, in fact, be penalized and subject to a negative**

20 **attrition adjustment," correct?**

21 A. So this -- in general, correct. So this

22 testimony here generally showed or indicated that, if

23 you have downward trending costs, that you wouldn't have

24 an attrition adjustment under the Avista -- Avista's

25 approved method.

Page 389

EXAMINATION BY MR. LOWNEY / MULLINS

1 And I'll just note that this -- the -- you know,

2 this testimony was in opposition of that methodology,

3 and the Commission has subsequently accepted that

4 methodology for ratemaking in Avista's prior general

5 rate case.

6 **Q. Okay. And let's just continue on.**

7 **If you could turn to page 3 of that exhibit, and**

8 **it's the same paragraph.**

9 **So beginning on line 1, you testified, and I'll**

10 **quote here, "It is bad policy to reward those utilities**

11 **with rapidly escalating costs while penalizing those**

12 **utilities that are undertaking efforts to control costs.**

13 **Such a policy will send a strong incentive for a utility**

14 **to disregard cost controls and to engage in unrestrained**

15 **spending on capital projects."**

16 **Now, that's your testimony in that Avista case,**

17 **correct?**

18 A. Correct.

19 **Q. And in that same section of your testimony in**

20 **the Avista case, you specifically cite Pacific Power as**

21 **a utility that has actively managed its costs and would**

22 **be penalized by an attrition adjustment, correct?**

23 A. So I -- I cite to words that were used by

24 Mr. Dalley in the 2014 general rate case. So it's not

25 my testimony, necessarily, the extent to which

Page 390

EXAMINATION BY MR. LOWNEY / MULLINS

1 Pacific Power is working to control its costs. If this

2 is true, however, that their costs are actually

3 declining, that be would an indication that they do not

4 need an attrition allowance.

5 **Q. So to be clear, in the Avista case, you argued**

6 **that it's bad policy to set rates based on an attrition**

7 **study; and here you claim the Commission cannot set**

8 **rates without an attrition study, correct?**

9 A. No. So I think the Commission can set rates

10 without an attrition study. I think the question is

11 whether the -- whether a second-year rate increase is --

12 is -- is an attrition adjustment or is warranted based

13 on claims of attrition. And I think without an

14 attrition study, I don't think you can get to that

15 point.

16 **Q. Now, if you could turn to page 6 of your**

17 **response testimony, please.**

18 **And I'm going to ask you a question about the**

19 **testimony on lines 1 and 2, which actually is the tail**

20 **end of a sentence that begins on the previous page.**

21 **But you recommend in this portion of your**

22 **testimony that the Commission reject the Company's**

23 **proposed rate plan because the Commission, quote,**

24 **ought -- or excuse me -- the plan, quote, "ought to be**

25 **supported by a holistic review of the Company's earnings**

EXAMINATION BY MR. LOWNEY / MULLINS

EXAMINATION BY MR. LOWNEY / MULLINS

1 rather than discrete changes."
 2 **Is that your testimony?**
 3 A. Yes.
 4 **Q. Okay. Let's go back to Exhibit 12CX, which**
 5 **again was your testimony in the Avista rate case.**
 6 A. Okay.
 7 **Q. And this time, if you could refer to page 4 of**
 8 **that exhibit, please, which is page 23 of your original**
 9 **testimony.**
 10 A. Okay.
 11 **Q. And there on lines 13 to 15, you criticized**
 12 **Avista's proposal because, quote, "...the majority of**
 13 **capital items are not discrete capital items, which the**
 14 **Commission has any ability to review on the basis of**
 15 **being known and measurable and used and useful."**
 16 **Is that a correct reading of your testimony in**
 17 **the Avista case?**
 18 A. Yeah. So maybe to put this into context, so if
 19 you note here, the page numbers kind of jump around, so
 20 this testimony was kind of structured in two pieces. So
 21 the first part was on the concept of attrition, and then
 22 the second part was just the traditional pro forma
 23 revenue requirement adjustments.
 24 And so this was, I believe, the second part
 25 where we were going through the Company's pro forma

1 case, the Company in this case has also agreed to file
 2 attestations related to each project prior to the
 3 second-year rate change, correct?
 4 A. I believe so.
 5 **Q. So you would agree that, before the capital**
 6 **projects are included in rates, the Commission and the**
 7 **parties will have an opportunity to verify that the**
 8 **costs are known and measurable and the projects are used**
 9 **and useful, correct?**
 10 A. Well, so this is a question -- I mean, so
 11 there's a lot of details to be worked out in that sort
 12 of process. So, for example, if the capital costs come
 13 in higher than what they're proposing in this case,
 14 is -- I mean, are they limited only by what is included
 15 in this case, or can they have more capital included
 16 afterwards if the costs come in higher. So I think
 17 there's a lot of details that -- that I certainly don't
 18 understand yet if that was to be approved.
 19 **Q. But you agree that, under an attestation, the**
 20 **costs will be known and measurable before they are**
 21 **included in rates?**
 22 A. Yeah. I think you could probably structure it
 23 in such a way that it would be known and measurable.
 24 **Q. Okay. Let's turn to your response testimony on**
 25 **page 8, please.**

EXAMINATION BY MR. LOWNEY / MULLINS

EXAMINATION BY MR. LOWNEY / MULLINS

1 revenue requirement adjustments and trying to figure
 2 out, you know, what made sense in the case.
 3 And so -- and so that's what this specific
 4 section is -- is testifying to, is whether the pro forma
 5 capital additions included in the Company's pro forma
 6 study were appropriate.
 7 **Q. Now, you would agree, though, that in this case,**
 8 **unlike the Avista case, the Company's second-year**
 9 **increase is based on discrete -- three discrete capital**
 10 **projects and the expiration of production tax credits,**
 11 **correct?**
 12 A. Yeah. Maybe -- could you repeat that?
 13 **Q. The Company's second-year rate increase in this**
 14 **case is based on three capital projects and the**
 15 **expiration of production tax credits, correct?**
 16 A. So the -- well, kind of. So the second-year
 17 rate increase is based off of pro forma case and -- for
 18 the first rate period, and then it's a few discrete pro
 19 forma adjustments beyond that. And we, Boise, don't
 20 think it's appropriate to go that far beyond the test
 21 period and to only analyze those very limited, discrete
 22 changes without being able to look at all of the
 23 offsetting factors that might transpire over the next
 24 year as we sort of move forward.
 25 **Q. Now, going back to the Avista case, unlike that**

1 **A. Okay.**
 2 **Q. Now, on lines 8 to 13 to page 8, you testify**
 3 **that the Company's proposed rate plan constitutes**
 4 **"single issue" ratemaking; is that correct?**
 5 A. Correct.
 6 **Q. And you argue that single-issue ratemaking is**
 7 **disfavored as a matter of policy, and you cite in**
 8 **footnote 8 to an Avista order from 2007; is that**
 9 **correct?**
 10 A. That's correct.
 11 **Q. And I'd just like to ask you a few questions**
 12 **about that order.**
 13 **Do you have a copy of it with you?**
 14 A. I do not.
 15 **Q. Okay. I thought you might not, so I've got one.**
 16 MR. LOWNEY: And if anybody else would like
 17 copies...
 18 BY MR. LOWNEY:
 19 **Q. All right, Mr. Mullins. So going back to the**
 20 **Avista case that you cite, now, in that case -- and just**
 21 **so the record's clear, this is the Avista case that's**
 22 **cited in footnote 8 of your testimony. It's docket**
 23 **UG-060518, Order 04, the service date is February 1st of**
 24 **2007.**
 25 **That's the order that you're referring to at**

Page 395

EXAMINATION BY MR. LOWNEY / MULLINS

1 **this point, correct, Mr. Mullins?**

2 A. Just a minute. All right. That's the correct

3 order.

4 **Q. Now, in this order, Avista had requested a**

5 **decoupling proposal; is that correct?**

6 A. That's my understanding.

7 **Q. All right. Now, let's turn to paragraph 19.**

8 **And for the record, this is the paragraph, the**

9 **specific pinpoint cite that you included in your**

10 **testimony --**

11 A. Okay.

12 **Q. -- as the basis of your recommendation regarding**

13 **single-issue ratemaking.**

14 **Now, this paragraph in the order describes a**

15 **Public Counsel argument that decoupling violates the**

16 **matching principle through single-issue ratemaking,**

17 **correct?**

18 A. Correct.

19 **Q. And as you quote in your testimony on line 13,**

20 **the -- excuse me -- page 8, line 13, "The problem with**

21 **single-issue ratemaking is that it could result in**

22 **over-earning by the Company and over-paying by**

23 **customers," correct?**

24 A. Correct.

25 **Q. And that's also reflected in this paragraph 19**

Page 396

EXAMINATION BY MR. LOWNEY / MULLINS

1 **of the Commission's order, correct?**

2 A. Correct.

3 **Q. But you would also agree that, in this case, the**

4 **Commission approved decoupling over the objection that**

5 **it constitutes single-issue ratemaking, correct?**

6 A. Correct.

7 **Q. And if you could just turn to paragraph 25 of**

8 **this order, which is on page 8, I believe, and the very**

9 **last sentence in paragraph 25, the Commission**

10 **specifically indicated that [as read] "It is reasonable**

11 **to conclude that the application of an earnings cap and**

12 **exclusion of weather from the mechanism will prevent**

13 **such a significant shift in risks that the Company would**

14 **earn windfall profits."**

15 **So would you agree that, in this case, the**

16 **Commission found that the earnings test that was a part**

17 **of the proposed decoupling mechanism would mitigate**

18 **concerns over single-issue ratemaking and potential**

19 **windfall of profits?**

20 A. I'm sorry. You're going to have to point me to

21 that specific --

22 **Q. It's the --**

23 A. -- those specific words.

24 **Q. -- last sentence on paragraph 25.**

25 A. Okay.

Page 397

EXAMINATION BY MR. LOWNEY / MULLINS

1 Q. It begins with the words, "It is also reasonable

2 to conclude..."

3 A. Okay.

4 **Q. So you would agree that the -- at least as this**

5 **sentence reads, one of the reasons that the Commission**

6 **cites for approving the decoupling mechanism, over**

7 **objections that it's single-issue ratemaking, is because**

8 **there was an earnings test involved that would prevent**

9 **the Company from earning windfall profits, correct?**

10 A. That certainly seems to be one of the -- one of

11 the reasons why it was approved.

12 **Q. And you would agree that the Company's**

13 **decoupling proposal in this case also includes an**

14 **earnings test, correct?**

15 A. So just to be clear, my testimony is not on the

16 decoupling mechanism, per se.

17 **Q. Are you familiar at all with the Company's**

18 **proposed decoupling mechanism?**

19 A. I am.

20 **Q. And are you familiar with the fact that it**

21 **includes an earnings test?**

22 A. Yes.

23 **Q. Okay. Now, let's move on and I'll ask you a few**

24 **questions about some of your proposed adjustments to the**

25 **WCA.**

Page 398

EXAMINATION BY MR. LOWNEY / MULLINS

1 **If you could turn to page 29 of your response**

2 **testimony, please.**

3 A. All right.

4 **Q. Now, on lines 15 through 17 of that page of your**

5 **testimony, you recommend that, for purposes of**

6 **inter-jurisdictional cost allocation, transmission O&M**

7 **expense should be allocated using a different**

8 **methodology than the Company's proposal in this case,**

9 **correct?**

10 A. Yeah, that's right. So the current methodology

11 that the Company uses for transmission O&M is based on a

12 system allocation. However, the amount of transmission

13 plant physically located on the West side of the system

14 is much less than the amount of plant located on the

15 East side of the system. So therefore, we think that

16 O&M should follow that same pattern, just as the Company

17 does for wheeling revenue. So wheeling revenues, the --

18 Washington actually gets a lower share of wheeling

19 revenues because there's less plant on the -- on the

20 West side of the system.

21 **Q. So I think -- just so we're on the same page**

22 **here, I want to make sure that what you just said is**

23 **consistent with your testimony.**

24 **So if you could just look at page 27, please,**

25 **lines 4 to 5, and I believe this is consistent with what**

EXAMINATION BY MR. LOWNEY / MULLINS

EXAMINATION BY MR. LOWNEY / MULLINS

1 you just testified to.

1 on the East and West side of the system?

2 And that is, quote [as read], "The Company
3 currently allocates transmission O&M based on a system
4 generation or SG factor."

2 A. No.

5 And that's consistent with what you just
6 testified to, correct?

3 Q. And why not?

4 A. Well, because it doesn't.

7 A. Correct.

5 Q. Well, would you agree that if you apply the CAGE
6 factor to a resource located in the East Control Area,
7 that allocates zero percent of that cost to the WCA?

8 Q. Now, despite your testimony, both pre-filed and
9 today, you know the Company does not actually allocate
10 transmission -- all transmission O&M expense using that
11 factor, correct?

8 A. So transmission is allocated on a system basis.
9 So the -- so there's no -- or the O&M itself is
10 allocated on a system basis. So there's no -- no O&M
11 that's explicitly assigned to the Western [sic] Control
12 Area. It's all systems.

12 A. That's true. I believe that some is allocated
13 on an SE factor. I believe that's correct. But it's
14 still a system allocation.

13 So that's why it makes sense to first carve it
14 out on a system plant basis, and assign a certain amount
15 to the West on -- in proportion to the amount of plant
16 in the West, and then assign it on the basis of
17 generation.

15 Q. Well, let's turn to the exhibit that you
16 attached to your testimony. This is Exhibit BGM-7. And
17 this is the -- for reference, this is the Company's West
18 Control Area Inter-Jurisdictional Allocation Methodology
19 Manual, correct?

18 Q. Now, you agree that your -- your testimony
19 regarding your understanding of the allocation of
20 transmission O&M expense is contradicted both by the WCA
21 manual we just discussed as well as the Company's Data
22 Request No. 93 that you also attached to your testimony
23 as BGM-5C, correct?

20 A. Correct.

24 A. I don't agree with that, no.

21 Q. Now, if you'd turn to page 3 of the exhibit.

22 A. Okay.

23 Q. Now, at the bottom of that page under subheading
24 2, which is -- for reference is -- states Allocation of
25 Resource Costs and Wholesale Revenues, it states,

25 Q. Well, both of these documents say that

EXAMINATION BY MR. LOWNEY / MULLINS

EXAMINATION BY MR. LOWNEY / MULLINS

1 "Generation and transmission resources are assigned to
2 either the East Control Area or the WCA," correct?

1 transmission O&M expense is allocated first by
2 allocating the particular expense to a resource, and
3 then only if the expense cannot be allocated to a
4 resource is it allocated systemwide, correct?

3 A. Correct.

5 A. I don't -- I don't believe that that's correct,
6 no.

4 Q. And then it says, the next sentence [as read],
5 "The factors used to allocate these costs are the
6 Control Area Generation East, the CAGE, or the Control
7 Area Generation West, the CAGW factors," correct?

7 Q. Well, I'm asking you --

8 A. Correct.

8 A. That's not my understanding, no.

9 Q. And the next sentence says [as read], "Certain
10 generation and transmission expenses such as
11 administration and engineering cannot be assigned to
12 specific resources. These costs are allocated using SG
13 factor," correct?

9 Q. Well, both of these documents say that that's
10 the way it's done, correct?

14 A. Correct.

11 A. But it's not my understanding.

15 Q. So what we've just established is that the only
16 costs that are allocated using the SG factor are costs
17 that are not assigned to a particular resource, right?

12 Q. And so what I asked you is, your testimony is
13 being contradicted by both of the attachments you
14 include as exhibits to your testimony, correct?

18 A. Pursuant to this document.

15 A. What's the -- what's your --

19 Q. Which is the document you attached to your
20 testimony justifying your position on the WCA, correct?

16 Q. It's page 27 of BGM-5C. It's the Company's
17 response to Data Request -- to Boise Data Request 93.

21 A. Correct.

18 JUDGE FRIEDLANDER: And this is a
19 confidential exhibit. We're not going to get into any
20 confidential information, are we?

22 Q. And would you agree that the CAGE and the CAGW
23 factors that are applied to transmission O&M expenses
24 allocated to a particular resource does take into
25 account the different levels of transmission resources

21 MR. LOWNEY: No. This particular response
22 is not confidential.

JUDGE FRIEDLANDER: Okay. Thank you.

24 COMMISSIONER JONES: So what page number are
25 we on?

Page 403

EXAMINATION BY MR. LOWNEY / MULLINS

1 MR. LOWNEY: Page 27.

2 COMMISSIONER JONES: 27 in the upper right.

3 BY MR. LOWNEY:

4 **Q. Mr. Mullins, are you on that page?**

5 A. I am.

6 **Q. And you would agree that the way that you've**

7 **just described how transmission O&M expense [sic] is**

8 **different than what is reflected in this data request**

9 **and is different than what's reflected in the WCA**

10 **manual, correct?**

11 A. Well, so I guess I don't really agree that this

12 is -- I don't agree that there is -- or my understanding

13 is -- was that there is no O&M expense that's explicitly

14 allocated to the West. So I don't necessarily agree

15 with this, no.

16 **Q. Mr. Mullins, are you familiar with testimony of**

17 **Ms. McCoy that was filed by the Company?**

18 A. Yes.

19 **Q. And do you have that testimony in front of you?**

20 A. Which -- which version?

21 **Q. It would be her direct testimony, I believe.**

22 A. You know, I didn't bring her direct in this

23 book, but we can grab it.

24 **Q. Okay. All right. If you could refer to Exhibit**

25 **No. SEM-3 --**

Page 404

EXAMINATION BY MR. LOWNEY / MULLINS

1 **A. Okay.**

2 **Q. -- which is the Results of Operations for the**

3 **Twelve Months Ended June 30, 2015.**

4 A. On this one, it says that it's voluminous and

5 provided under a separate cover so...

6 Okay.

7 **Q. All right. If you could turn to -- under tab 2,**

8 **which is -- says Results of Operation, turning to page**

9 **2.12.**

10 A. Okay.

11 **Q. All right. Now, if you look down on --**

12 **beginning on lines 509 on that page -- hopefully we're**

13 **all on the same page at this point -- and 509 says,**

14 **Summary of Transmission Expense by Factor.**

15 **Do you see that?**

16 A. Okay. I do.

17 **Q. Now, the first line, 510, shows SE, which is the**

18 **factor you previously testified is used in addition to**

19 **SG to allocate transmission expense.**

20 **And if you just follow that line over, you'll**

21 **see that there's no expenses actually allocated by that**

22 **factor, correct?**

23 A. Correct. That's right. So that would be a

24 correction from what I said earlier.

25 **Q. And if you move down to line 512, that's the**

Page 405

EXAMINATION BY MR. LOWNEY / MULLINS

1 **CAGW factor that we just discussed that I believe you**

2 **also testified does not apply to transmission. And if**

3 **you look at the total number, it looks like there's**

4 **\$125 million of transmission expense allocated using**

5 **that factor.**

6 A. Correct, but that's not necessarily the O&M

7 expense that we're talking about here. So the expense

8 that we're reviewing is on line 511, and so that was --

9 those were the amounts that I was reviewing in my

10 adjustment.

11 **Q. But that's not -- that's not all the O&M**

12 **expense, is it?**

13 A. Well, I guess it depends on how you define O&M

14 expense. I mean, so my definition was the -- was the

15 costs specifically on that -- on that line.

16 **Q. So I guess, just to clarify, when you testified**

17 **that the Company assigned O&M expenses using the SG**

18 **factor, you weren't actually talking about O&M expenses;**

19 **you were talking about the O&M expenses that -- a**

20 **limited subset of those expenses that could not be tied**

21 **to a particular resource?**

22 A. You know, that's actually generally right.

23 So as I'm looking at this, it looks like the --

24 so for example, on row 491, for example, there are

25 amounts that are explicitly allocated to a -- on CAGW

Page 406

EXAMINATION BY MR. LOWNEY / MULLINS

1 basis, so I think that's right.

2 **Q. All right. Now, let's move on to the second**

3 **adjustment you proposed to the WCA allocation**

4 **methodology related to general office expense.**

5 **If you could turn to page 32 of your testimony,**

6 **please.**

7 **Now, on lines 5 to 11 of this page of your**

8 **testimony --**

9 **JUDGE FRIEDLANDER: Um, before we get into**

10 **that, we're not -- again, this is a page that's been**

11 **designated as confidential. This isn't going to touch**

12 **on the actual confidential information on the page, is**

13 **it?**

14 MR. LOWNEY: That's correct.

15 JUDGE FRIEDLANDER: Okay. Thank you.

16 BY MR. LOWNEY:

17 **Q. Now, Mr. Mullins, going back to -- so lines 5 to**

18 **11 --**

19 A. Okay.

20 **Q. -- you recommend an adjustment that would use**

21 **the system overhead or SO factor to allocate certain**

22 **amounts booked to FERC account 557.**

23 A. Okay. Yep.

24 **Q. That's correct?**

25 A. Correct.

Page 407

EXAMINATION BY MR. LOWNEY / MULLINS

1 Q. Now, to support this recommendation in the
2 footnotes, you cite to BGM-7, correct?

3 A. Okay. Yep.

4 **Q. And that's the document we were just looking at,
5 which is an exhibit to your direct testimony -- or
6 excuse me -- your response testimony. That is an
7 excerpt from the West Control Area Inter-Jurisdictional
8 Allocation Methodology Manual, correct?**

9 A. Correct.

10 **Q. Now, you only included a small excerpt of that
11 manual in your testimony, right?**

12 A. Correct. It's a large document, and I know that
13 you provided a cross-exhibit.

14 **Q. Yeah, I did provide it. So let's look at that.
15 This is BGM-13CX.**

16 **And would you agree that this is the full volume
17 of the WCA manual?**

18 A. Correct.

19 **Q. All right. And I assume you've reviewed the
20 entire document in preparation of your testimony in this
21 case?**

22 A. I have.

23 **Q. And you would agree, then, that the manual
24 includes a section where it describes the applicable
25 allocation factors for every single FERC account,**

Page 408

EXAMINATION BY MR. LOWNEY / MULLINS

1 **correct?**

2 A. Generally, yes.

3 **Q. All right. Please turn to page 29 of the
4 exhibit.**

5 A. Okay.

6 **Q. Now, the second box from the bottom is FERC
7 Account 557, which is the account your adjustment
8 applies to, correct?**

9 A. Correct.

10 **Q. And just going up a few lines to sort of get the
11 heading for this account, this is an account that falls
12 under the Other Power Supply heading, correct?**

13 A. Correct.

14 **Q. And if you look over in the third column, the
15 furthest one to the right, it lists each of the
16 allocation factors that apply to FERC 557, correct?**

17 A. Correct.

18 **Q. And the SO factor which you proposed to apply is
19 not included here, correct?**

20 A. Correct.

21 **Q. So you would agree that your proposal is
22 inconsistent with the allocation methodology that's
23 currently approved by the Commission, correct?**

24 A. Not necessarily. I mean, so the -- the manual
25 does clearly say that general office expenses are

Page 409

EXAMINATION BY MR. COWELL / MULLINS

1 allocated on an SO basis. I think that the Company
2 does, and maybe rightly so, point out that generation
3 costs that aren't assignable to a specific side of the
4 system are allocated generally on an SG factor. So --
5 but I don't think it's so clear-cut as your question
6 might make it out to be.

7 MR. LOWNEY: Thank you, Mr. Mullins.
8 I have no further questions.

9 JUDGE FRIEDLANDER: Thank you.
10 Do we have any redirect?

11 MR. COWELL: Yes. Thank you, your Honor.
12 *** EXAMINATION BY MR. COWELL ***

13 BY MR. COWELL:
14 **Q. So Mr. Mullins, we -- the cross-examination
15 started out with reference to your testimony in Avista's
16 recently completed general rate case.
17 And could you please explain the result of that
18 case?**

19 A. Yeah. So -- so in that case, as the Commission
20 is well aware, an attrition allowance was accepted based
21 on the use of a trending study, which went against our
22 recommendation, or my recommendation on behalf of ICNU
23 to adopt a traditional revenue requirement methodology.

24 **Q. Mr. Mullins, we also talked about your testimony
25 in single-issue ratemaking, and we talked about the**

Page 410

EXAMINATION BY MR. COWELL / MULLINS

1 **citation to your statement that single-issue ratemaking
2 was disfavored.**

3 **Did you -- could you please explain if you went
4 beyond that to say that single-issue ratemaking is more
5 than disfavored by the Commission?**

6 A. Well, I think it's a matter of policy.
7 Single-issue ratemaking is very bad for consumers
8 because it allows the Company just to pick those items
9 which are increasing and pass those through to rates,
10 while ignoring items that will potentially decrease.

11 And we've seen it -- just kind of a trend of
12 single-issue ratemaking requests kind of throughout the
13 West, and so it gets very concerning from a ratepayer
14 perspective that this sort of trend is expanding.

15 **Q. And we also talked -- or you discussed with
16 Counsel about the Company's decoupling proposal.
17 And what is your understanding of the decoupling
18 proposal application to Schedule 48?**

19 A. So we have accepted the Company's recommendation
20 to exempt Schedule 48 from the decoupling proposal;
21 however, our recommendation is that we make some rate
22 design changes that will better align that schedule with
23 the goals of decoupling.

24 MR. COWELL: Thank you, Mr. Mullins.
25 No further redirect.

Page 411

EXAMINATION BY CHAIRMAN DANNER / MULLINS

1 JUDGE FRIEDLANDER: Okay. Thank you.

2 Are there any questions from the bench?

3 COMMISSIONER RENDAHL: None for me.

4 JUDGE FRIEDLANDER: Thank you.

5 *** EXAMINATION BY CHAIRMAN DANNER ***

6 BY CHAIRMAN DANNER:

7 **Q. So I wanted to just ask you a question about the**

8 **Avista Order 04 in Docket UG-060518, and just -- is it**

9 **your understanding that that is a pilot program?**

10 A. Yes. Yes.

11 **Q. Okay. And so as a pilot program, is it your**

12 **understanding there would be some additional flexibility**

13 **and learning involved? In other words, by doing that,**

14 **it's not necessarily the Commission taking a hard stand**

15 **for or against any particular attributes in it; it's**

16 **really more of an opportunity to learn?**

17 A. Yeah, I think so.

18 **Q. It's also your understanding this is a**

19 **settlement case --**

20 A. Right.

21 **Q. -- the case involved settlement?**

22 A. Right.

23 CHAIRMAN DANNER: All right. Thank you.

24 I have no further questions.

25 JUDGE FRIEDLANDER: And we'll go ahead and

Page 412

EXAMINATION BY COMMISSIONER JONES / MULLINS

1 take official notice of this as well just to have it in

2 the record.

3 COMMISSIONER JONES: Just one quick

4 question.

5 *** EXAMINATION BY COMMISSIONER JONES ***

6 BY COMMISSIONER JONES:

7 **Q. If you could turn to page 10 of your testimony,**

8 **please.**

9 **On lines 2 through 8, you talk about your**

10 **proposal for a second -- for the second rate increase.**

11 **Are you there?**

12 A. On page 10, lines 2 through 8?

13 **Q. Yeah.**

14 A. Okay.

15 **Q. And you propose a stay-out on new rate increases**

16 **through January 1st, 2019?**

17 A. Correct.

18 **Q. And so what is the basis of that? A few of us**

19 **have been very involved in the regional ISO and the ISO**

20 **integration issues, but I don't -- I'm a little puzzled**

21 **about how you tie the two together.**

22 A. Well, first of all, I think we want to thank the

23 Commission for being so involved in the process. I

24 think it's a very important process, and I think now is

25 the time to be involved if you want to have an impact on

Page 413

EXAMINATION BY COMMISSIONER JONES / MULLINS

1 the end result.

2 As far as the rate plan goes, you know, when we

3 were kind of working through the revenue requirement

4 issues, we kind of viewed it as an overall sort of

5 package of what we viewed to be reasonable.

6 And you know, I think what we don't want is to

7 be in a situation where the Company is filing for new

8 rates in June of 2018, and then joins the ISO within,

9 you know, a matter of six months, and by doing so, it

10 has a sort of dramatic or a different impact on their

11 costs. And so from our perspective, it would be nice to

12 sort of line those two up to have it be a little more

13 cleaner.

14 **Q. So it's not any advocacy at this point because**

15 **it's going to be a huge issue if it happens. There's**

16 **going to be a lot of litigation, and I would assume a**

17 **lot of issue with the transmission assets. This goes**

18 **far beyond an EIM so -- but what you were talking about**

19 **is just lining up the dates here?**

20 A. Right.

21 COMMISSIONER JONES: Okay. Thank you.

22 That's all I have.

23 JUDGE FRIEDLANDER: Thank you. I believe

24 that's all that we have, Mr. Mullins. Thank you for

25 your testimony and you're excused.

Page 414

1 I've been looking at my notes. I don't see

2 that there's any other issues that we need to address

3 before adjourning.

4 Does anyone else have something they'd like

5 to raise?

6 All right.

7 MS. MCDOWELL: So your Honor, we were just

8 having a brief conversation about the follow-up from

9 Mr. Strunk, and he did send an e-mail which has the

10 information.

11 Is it -- I'm just wondering if it's better

12 to provide it through some kind of formal writing or --

13 I mean, I'm happy to look at my e-mail and see what it

14 says, but perhaps it would be best to present it in a

15 formal letter to you or something -- submission to you

16 tomorrow.

17 JUDGE FRIEDLANDER: I think that would be

18 appropriate, and that way you can file it electronically

19 as well, and we'll have it all in the record.

20 MS. MCDOWELL: Yeah, I thought that might be

21 a better way to cover it for the record, so we're happy

22 to follow up tomorrow morning with that.

23 JUDGE FRIEDLANDER: Thank you. That would

24 be great.

25 Is there anything else?

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All right. We're adjourned for this phase
until we get to phase two.
(Hearing concluded at 5:55 p.m.)

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CERTIFICATE

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I, ANITA W. SELF, a Certified Shorthand Reporter
in and for the State of Washington, do hereby certify
that the foregoing transcript is true and accurate to
the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have hereunto set my hand
and seal this 6th day of May, 2016.

ANITA W. SELF, RPR, CCR #3032