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1 BEFORE THE WASHINGTON STATE

2 UTILITIES AND TRANSPORTATION COMMISSION

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4 WASHINGTON UTILITIES AND )

TRANSPORTATION COMMISSION, )

5 )

Complainant, ) Docket No. UE-152253

6 )

v. )

7 )

PACIFIC POWER & LIGHT COMPANY, )

8 )

Respondent. )

9

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11 EVIDENTIARY HEARING, VOLUME V

12 Pages 131 - 416

13 ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

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15 9:33 a.m.

16 May 2, 2016

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1 OLYMPIA, WASHINGTON; MAY 2, 2016

2 9:33 A.M.

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5 JUDGE FRIEDLANDER: We'll go on the record.

6 My name is Marguerite Friedlander. I'm an

7 administrative law judge with the Washington Utilities

8 and Transportation Commission.

9 We're here for an evidentiary hearing in

10 Docket UE-152253, the two-year rate plan increase

11 requested by Pacific Power & Light Company.

12 I'm going to start out by taking

13 appearances, address the admission of exhibits, and then

14 deal with any procedural issues before I go get the

15 commissioners.

16 So let's begin with appearances, starting

17 with Ms. McDowell.

18 MS. MCDOWELL: Thank you, Judge Friedlander,

19 and good morning. This is Katherine McDowell appearing

20 on behalf of Pacific Power. With me today is Adam

21 Lowney, sitting at counsel table, and my partner, Lisa

22 Rackner, who will be appearing also.

23 JUDGE FRIEDLANDER: And for the court

24 reporter's benefit, do you need them to spell their last

25 names?

0139

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 ffitch 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,

0140

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

0141

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.

0142

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:

0143

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

0144

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

0145

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?

0146

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

0147

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

0148

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

0149

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,

0150

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 prudency, 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

0151

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?

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.

9 Q. Those modest increases, they are still very

10 real, however?

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.

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.

21 MR. BEATTIE: All right. That's all the

22 questions I have. Thank you very much.

23 THE WITNESS: Thank you.

24 JUDGE FRIEDLANDER: Thank you, Mr. Beattie.

25 And thank you for the correction on your name as well.

0152

1 I apologize for the mispronunciation.

2 I believe Mr. ffitch.

3 MR. FFITCH: Thank you, your Honor. Good

4 morning, commissioners.

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

6 BY MR. FFITCH:

7 Q. Good morning, Mr. Dalley. Simon ffitch for the

8 Public Counsel office.

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.

13 JUDGE FRIEDLANDER: Thank you.

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?

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?

0153

1 A. Subject to check, yes. I don't have that figure

2 right in front of me, but that sounds about right.

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?

8 A. That is correct. With the other elements of the

9 test period considered, that is certainly true.

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?

14 A. Yes, that's correct.

15 Q. And during the intervening period, PacifiCorp

16 had a rate case before this Commission for Washington

17 rates, did it not?

18 A. Yes, it did, in 2014.

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

0154

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?

4 A. Can you rephrase or ask me that again? I'm not

5 sure I tracked right the last piece of that question.

6 Q. I'll restate the question.

7 A. Thank you.

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?

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.

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

0155

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

0156

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. ffitch, 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

0157

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.

0158

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,

0159

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.

6 And our proposal here is not one that looks at

7 how long a particular facility such as Jim Bridger or

8 Colstrip will last. It's not an evaluation or an

9 engineering study of how long that actual equipment will

10 last. But rather it's a proposal to adjust the useful

11 service life from an economic basis to be able to adapt

12 to the future to address existing and emerging

13 environmental policies.

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?

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.

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

0160

1 year 2032?

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.

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?

13 A. Yes.

14 Q. And do you agree with that?

15 A. I do.

16 Q. All right.

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.

25 In that section it goes through a list of items

0161

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 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 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 You were referring to which part of the CFR?

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.

0162

1 MR. FFITCH: Thank you, your Honor. We're

2 fine with that -- inclusion of that in the record.

3 BY MR. FFITCH:

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.

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?

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.

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 permitable [sic] and allowed by our state

22 utility commissions.

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?

0163

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. ffitch, 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

0164

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

0165

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?

0166

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.

0167

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

0168

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

0169

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],

0170

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

0171

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."

0172

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

0173

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

0174

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. ffitch.

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

0175

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

0176

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

0177

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

0178

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

0179

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

0180

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

0181

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,

0182

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.

0183

1 Q. Thank you. That's a good segue to the next

2 question I wanted to ask.

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?

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

9 Q. Sure.

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.

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.

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

0184

1 other parties for annual, litigated rate cases. And so

2 that is definitely a consideration.

3 Q. Okay. Thank you.

4 Mr. Dalley, if you would turn to page 23 of your

5 rebuttal testimony, RBD-3T.

6 A. I'm there.

7 Q. And if you would just look at lines 12 through

8 15 and Note 47.

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

10 MR. COWELL: Oh, sorry, Commissioner. This

11 is page 23 of RBD-3T.

12 CHAIRMAN DANNER: Thank you.

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?

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,

0185

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?

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 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.

16 And do you see a distinction there between those

17 terms?

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.

24 Q. Okay. I'll switch gears here, Mr. Dalley.

25 The last topic I want to address with you

0186

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.

7 So to begin, the Company's updated its revenue

8 requirement request in rebuttal testimony, right?

9 A. Yes, it has.

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?

14 A. Yes.

15 Q. And that's based on the procedural schedule

16 approved in this case, right?

17 A. Yes.

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?

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

0187

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.

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?

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 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?

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.

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.

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

0188

1 updated and provided additional information on certain

2 cost of capital issues. Would that be fair to say?

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.

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?

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?

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?

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

0189

1 again based on the conference we had last week on

2 Friday.

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.

11 Q. Okay. So you know, all that kind of foundation

12 leads up to this question.

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?

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.

24 Ms. McCoy would be able to address them more

25 specifically. But in the procedural schedule that was

0190

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.

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?

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 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.

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

0191

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.

0192

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

0193

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.

0194

1 Q. And Mr. ffitch 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?

0195

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. ffitch referred to. So that's from

23 the Code of Federal Regulations.

24 Q. Correct. And you had referenced in your

25 answer --

0196

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,

0197

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

0198

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. ffitch 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

0199

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

0200

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

0201

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,

0202

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

0203

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

0204

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

0205

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

0206

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

0207

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

0208

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.

0209

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

0210

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

0211

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?

0212

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

0213

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

0214

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

0215

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.

0216

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

0217

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

0218

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

0219

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

0220

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

0221

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

0222

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

0223

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 realties 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

0224

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,

0225

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. ffitch 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.

0226

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

0227

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

0228

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 / / /

0229

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

0230

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

0231

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

0232

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

0233

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,

0234

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

0235

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.

0236

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

0237

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. Misters 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

0238

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

0239

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

0240

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?

0241

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,

0242

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

0243

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

0244

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.

0245

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.

0246

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.

0247

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

0248

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.

0249

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

0250

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

0251

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,

0252

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

0253

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

0254

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

0255

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

0256

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

0257

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,

0258

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

0259

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

0260

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

0261

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

0262

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

0263

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

0264

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

0265

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

0266

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

0267

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

0268

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.

0269

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.

0270

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.

0271

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

0272

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 --

0273

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.

0274

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

0275

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.

0276

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?

0277

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

0278

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.

0279

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 --

0280

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

0281

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

0282

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

0283

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.

0284

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

0285

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?

0286

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

0287

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

0288

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.

0289

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?

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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?

0291

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?

0292

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.

0293

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?

0294

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

0295

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

0296

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.

0297

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

0298

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

0299

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

0300

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.

0301

1 \*\*\* EXAMINATION BY MR. COWELL \*\*\*

2 BY MR. COWELL:

3 Q. Good afternoon, Ms. McCoy.

4 A. Good afternoon.

5 Q. So Ms. McCoy, if we could start off with Exhibit

6 No. SEM-13CX, and page 1 of that exhibit, which is Boise

7 Data Request 115.

8 COMMISSIONER RENDAHL: I'm sorry. Can you

9 repeat that? I'm still shuffling pages.

10 BY MR. COWELL:

11 Q. It's Exhibit No. SEM-13CX, and then starting

12 with page 1.

13 A. Okay. I'm there.

14 Q. Okay. So near the bottom of that request,

15 Ms. McCoy, your testimony -- your rebuttal testimony's

16 quoted that you testified that the Company's filing is

17 comprised of adjustments, incorporating discrete and

18 identifiable cost increases over the next two years; is

19 that correct?

20 A. That is correct.

21 Q. Now, when the Company was asked about this

22 testimony, you prepared this data response, correct?

23 A. Correct.

24 Q. Which states that the Company's testimony

25 referring to identifiable cost increases is merely a

0302

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?

0303

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

0304

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?

0305

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.

0306

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

0307

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.

0308

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.

0309

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,

0310

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

0311

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

0312

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

0313

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.

0314

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

0315

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.

0316

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,

0317

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.

0318

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

0319

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.

4 BY MR. PURDY:

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?

9 A. Yes.

10 Q. And do those include low income weatherization

11 assistance, low income bill assistance, and a

12 collaborative for the purpose of obtaining better low

13 income data for the commissioners to assist them in

14 making a number of decisions?

15 A. Yes.

16 Q. Okay.

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.

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.

24 For instance, the low income data might help us

25 in determining whether a third residential tier would be

0320

1 appropriate; is that not true?

2 A. That is true, yes.

3 Q. Okay. 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?

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 Q. Would it be fair to say all interested

12 stakeholders can have a seat at the table?

13 A. Yes, I believe so.

14 Q. Okay. Great. Thank you.

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

0321

1 the low income bill assistance program as that comes to

2 the end of its five-year plan in 2017.

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?

6 A. Yes.

7 Q. Among other things?

8 A. I don't believe there's anything off the table.

9 Q. That's great. Thank you.

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?

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.

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

0322

1 income households receive?

2 A. Possibly, but I don't want to close the door to

3 other entities being able to assist with that as well.

4 Q. Okay. Certainly. Thank you.

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.

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?

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.

24 But I think first we have to assess where are

25 the data gaps we have, after fully examining what data

0323

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.

0324

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

0325

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

0326

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

0327

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

0328

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

0329

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.

0330

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

0331

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

0332

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.

0333

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.

0334

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

0335

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

0336

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

0337

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.

0338

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

0339

1 did not have this ability before the exchange."

2 Did I read that correctly?

3 A. Yes.

4 Q. And you cite, as support for that statement,

5 Pacific Power's response to Staff, Data Request Number

6 5?

7 A. 105.

8 Q. Excuse me, yes. 105.

9 A. Yes.

10 Q. Okay. And -- but you didn't offer into evidence

11 that Response 105, did you?

12 A. I don't believe so, no.

13 Q. Okay. So I want to direct your attention to

14 your Cross-Exhibit 10CX.

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.

0340

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.

5 Do you need a moment to get there?

6 A. No, I'm just looking for a different exhibit.

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."

14 Did I get that right?

15 A. Yes.

16 Q. So can you tell me where the Hurricane and

17 La Grande areas are?

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?

24 A. Yes, that's a fair characterization.

25 Q. Okay. Thank you.

0341

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.

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?

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?

12 Q. Yes, that's correct.

13 A. Yes, I believe -- I believe that would be true.

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?

20 A. That's correct.

21 Q. And is it your understanding now that PacifiCorp

22 owns a two-third interest in each of those lines?

23 A. Yes.

24 Q. And isn't Staff's recommendation that

25 100 percent of the cost of those lines would continue to

0342

1 be allocated to the WCA?

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.

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.

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.

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?

20 A. Yes.

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

0343

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.

0344

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

0345

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

0346

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.

0347

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

0348

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

0349

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?

0350

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

0351

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?

0352

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.

0353

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

0354

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

0355

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

0356

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

0357

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

0358

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 / / /

0359

1 \*\*\* EXAMINATION BY MR. BEATTIE \*\*\*

2 BY MR. BEATTIE:

3 Q. Ms. Huang, could you please state and spell your

4 name for the record?

5 A. My name is Joanna, J-O-A-N-N-A, last name

6 H-U-A-N-G.

7 Q. What is your position with the Commission?

8 A. Regulatory analyst.

9 Q. Are you the same Joanna Huang who filed

10 pre-filed responsive testimony in this case?

11 A. Yes.

12 Q. Is that testimony JH-1T?

13 A. Yes.

14 Q. And in the course of your direct testimony,

15 JH-1T, you refer to Exhibits JH-2 through JH-6?

16 A. Yes.

17 Q. Were these exhibits prepared by you?

18 A. Yes.

19 Q. Do you have any corrections to either your

20 exhibits or your direct -- or excuse me, your direct

21 responsive testimony?

22 A. No.

23 Q. Do you affirm that testimony as though you were

24 repeating it here today?

25 A. Yes.

0360

1 MR. BEATTIE: Thank you.

2 Ms. Huang is available for cross-examination

3 and for questioning from the bench.

4 JUDGE FRIEDLANDER: Thank you. And I

5 believe that it's Mr. Cowell.

6 MR. COWELL: Thank you, your Honor.

7 \*\*\* EXAMINATION BY MR. COWELL \*\*\*

8 BY MR. COWELL:

9 Q. Good afternoon, Ms. Huang.

10 A. Good afternoon.

11 Q. So Ms. Huang, if you would start by turning to

12 page 3 of your testimony, lines 19 and 20.

13 A. Yes.

14 Q. Now, you testified that plant and service

15 balances at EOP levels are a more accurate reflection of

16 rate base balances during the rate year in comparison to

17 an average of monthly averages, or AMA, the AMA

18 approach, correct?

19 A. Yes.

20 Q. Now, in support of your position, did you

21 discuss your cite to the Commission's determination on

22 the Company's EOP proposal in Pacific Power's last

23 general rate case?

24 A. No.

25 Q. Are you familiar with that determination in the

0361

1 last general rate case?

2 A. It's the four factors?

3 Q. Correct. We were discussing it earlier, right?

4 A. Yeah.

5 Q. Now, do you think, Mrs. Huang, that the

6 Commission's determination on the Company's use of EOP

7 rate base in Pacific Power's general rate case is

8 something that should be considered in this proceeding?

9 A. Yes.

10 Q. If you could turn to the next page of your

11 testimony, page 4, lines 1 through 4.

12 Now, you believe that Mr. Dalley and Ms. McCoy

13 have adequately supported the Company's EOP proposal in

14 this case, correct?

15 A. Yes.

16 Q. And in support of your opinion, in footnotes 1

17 and 2 of your testimony, I count that you cite to

18 five pages of direct testimony for Mr. Dalley and

19 Ms. McCoy; is that accurate?

20 A. Yes.

21 Q. Now, if you would turn to page 9 of your

22 testimony, please, lines 6 and 7.

23 Now, you were also asked in your testimony

24 whether the Company had adequately supported its

25 accelerated depreciation proposal; is that correct?

0362

1 A. Yes.

2 Q. And your answer to that question was no, right?

3 A. That's correct.

4 Q. Okay. And you went on to testify that the

5 Company supported its accelerated depreciation proposal

6 with only cursory and qualitative testimony by

7 Mr. Dalley and Ms. McCoy; is that correct?

8 A. Yes.

9 Q. Now, this statement of your testimony was

10 supported by footnote 16, right, on page 9?

11 A. Yes.

12 Q. Now, as I calculate here on page -- on footnote

13 16, you cited to six pages of testimony from Mr. Dalley

14 and Ms. McCoy to support your position, right?

15 A. That's true.

16 Q. Okay. Now, going back again to the five pages

17 of Company testimony you cited to support for testimony

18 that Pacific Power had adequately supported its EOP

19 proposal, do those five pages not constitute cursory and

20 qualitative testimony?

21 In other words, what I'm trying to get at it, it

22 would seem on face value to be about the same amount of

23 testimony. In one, you have testified that it was

24 adequate support, and the other one you said was merely

25 cursory and qualitative testimony.

0363

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

0364

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

0365

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:

0366

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?

0367

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.

4 Do you have any corrections to be made to your

5 testimony or to your exhibits?

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."

9 Q. Thank you. And were all of these exhibits

10 prepared by you?

11 A. Yes, they were.

12 MS. CAMERON-RULKOWSKI: Ms. O'Connell is

13 available for cross-examination and for questions from

14 the bench.

15 JUDGE FRIEDLANDER: Okay. Thank you.

16 \*\*\* EXAMINATION BY MR. LOWNEY \*\*\*

17 BY MR. LOWNEY:

18 Q. Ms. O'Connell, my name is Adam Lowney. I'm

19 counsel for Pacific Power. Good afternoon.

20 A. Good afternoon.

21 Q. So I actually -- I just have a few questions

22 about your environmental remediation 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

0368

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?

5 A. That is 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?

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?

14 A. I believe so, yeah.

15 Q. That's correct?

16 A. That's correct.

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?

24 A. That was initially filed, yes.

25 Q. And now you're allocating 100 percent of the

0369

1 Washington -- of the costs associated with Washington

2 projects to the revenue requirement, correct?

3 A. That is correct.

4 Q. Okay. So I think -- I just wanted to make sure

5 we're all on the same page.

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

10 remediation costs associated with projects that are

11 physically located within the state of Washington,

12 correct?

13 A. On non-major projects, environmental projects

14 that are located in Washington, yes.

15 Q. And to be clear, Washington customers would pay

16 no costs for any environmental remediation project

17 that's not located in Washington, correct?

18 A. For any non-major environmental remediation

19 projects that are not located in Washington, yes.

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 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

0370

1 four projects that you include in your revenue -- in

2 Staff's revenue requirement, correct?

3 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 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?

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?

17 A. That is 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?

21 A. Correct.

22 Q. But under your proposal, Washington customers

23 receive that benefit but don't pay any costs associated

24 with remediation efforts?

25 A. That is correct.

0371

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

0372

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 appropriates 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.

0373

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.

0374

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,

0375

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.

0376

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:

0377

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

0378

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

0379

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

0380

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,

0381

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

0382

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

0383

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.

0384

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.

0385

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,

0386

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.

0387

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?

0388

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.

0389

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

0390

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

0391

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

0392

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

0393

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.

0394

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

0395

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

0396

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.

0397

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.

0398

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

0399

1 you just testified to.

2 And that is, quote [as read], "The Company

3 currently allocates transmission O&M based on a system

4 generation or SG factor."

5 And that's consistent with what you just

6 testified to, correct?

7 A. Correct.

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?

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.

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?

20 A. Correct.

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,

0400

1 "Generation and transmission resources are assigned to

2 either the East Control Area or the WCA," correct?

3 A. Correct.

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?

8 A. Correct.

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?

14 A. Correct.

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?

18 A. Pursuant to this document.

19 Q. Which is the document you attached to your

20 testimony justifying your position on the WCA, correct?

21 A. Correct.

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

0401

1 on the East and West side of the system?

2 A. No.

3 Q. And why not?

4 A. Well, because it doesn't.

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 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.

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.

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?

24 A. I don't agree with that, no.

25 Q. Well, both of these documents say that

0402

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?

5 A. I don't -- I don't believe that that's correct,

6 no.

7 Q. Well, I'm asking you --

8 A. That's not my understanding, no.

9 Q. Well, both of these documents say that that's

10 the way it's done, correct?

11 A. But it's not my understanding.

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?

15 A. What's the -- what's your --

16 Q. It's page 27 of BGM-5C. It's the Company's

17 response to Data Request -- to Boise Data Request 93.

18 JUDGE FRIEDLANDER: And this is a

19 confidential exhibit. We're not going to get into any

20 confidential information, are we?

21 MR. LOWNEY: No. This particular response

22 is not confidential.

23 JUDGE FRIEDLANDER: Okay. Thank you.

24 COMMISSIONER JONES: So what page number are

25 we on?

0403

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 --

0404

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

0405

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

0406

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.

0407

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,

0408

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

0409

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

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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.

0411

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

0412

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

0413

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.

0414

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?

0415

1 All right. We're adjourned for this phase

2 until we get to phase two.

3 (Hearing concluded at 5:55 p.m.)

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3 STATE OF WASHINGTON )

) ss.

4 COUNTY OF KING )

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7 I, ANITA W. SELF, a Certified Shorthand Reporter

8 in and for the State of Washington, do hereby certify

9 that the foregoing transcript is true and accurate to

10 the best of my knowledge, skill and ability.

11 IN WITNESS WHEREOF, I have hereunto set my hand

12 and seal this 6th day of May, 2016.

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17 ANITA W. SELF, RPR, CCR #3032

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