1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (the Company).**
3 A. My name is Andrew N. MacRitchie. My business address is 825 N.E.
4 Multnomah, Suite 2000, Portland, Oregon, 97232. My present position is
5 Executive Vice President, Strategy, Regulatory and External Affairs.
6 **Qualifications**
7 **Q. Mr. MacRitchie, please summarize your education and business experience.**
8 A. I received an honors degree from Glasgow University in Electrical and Electronic
9 Engineering. I obtained an MBA from Strathclyde Graduate Business School in
10 1992 and undertook an Executive Development Program at Wharton Business
11 School in 1996. I initially joined ScottishPower as a Project Team Leader on
12 engineering IT projects. Since then, I have led, or taken part in, many of the
13 significant change programs within the Company. I led the
14 ScottishPower/PacifiCorp U.S. merger team and led the subsequent PacifiCorp
15 Transition Planning effort. I was head of PacifiCorp's Power Delivery Business
16 for two years. After having spent approximately three years as head of
17 PacifiCorp's major program initiatives including the Multi-State Process (MSP),
18 the proposed Northwest Regional Transmission Organization, and our clean air
19 initiatives, I assumed responsibility of regulation and external affairs.
20 **Q. What are your responsibilities as Executive Vice President?**
21 A. I am responsible for all regulatory matters, including regulatory planning, strategy
22 & filings, including rate cases before six state utility commissions and the Federal
23 Energy Regulatory Commission. I am also responsible for all of the Company's

1 government relations activities at the federal and state level.

2 **Q. Have you previously offered testimony in this proceeding?**

3 A. No, but I will be adopting as my own the prefiled direct testimony of Donald N.

4 Furman.

5 **Purpose of Testimony**

6 **Q. What is the purpose of your testimony?**

7 A. My testimony responds generally to the revenue requirement recommendations of

8 Staff, Public Counsel and the Industrial Customers of Northwest Utilities (ICNU),

9 including observations regarding their cost of capital recommendations. I explain

10 why cost of capital issues are so important to the Company, given its substantial

11 capital commitments in the coming years. I also respond from a policy

12 perspective to the parties' positions with respect to the Company's proposed

13 Power Cost Adjustment Mechanism (PCAM), the Revised Protocol inter-

14 jurisdictional allocation method, and ICNU witness Selecky's proposed

15 consolidated tax adjustment. (Other Company witnesses will address the

16 technical aspects of these adjustments.) I also address the Company's response to

17 the proposals from the Energy Project regarding low-income issues. Finally, I

18 identify the other Company rebuttal witnesses and describe the areas on which

19 they will be testifying. The Company in its rebuttal case has reduced its requested

20 increase to $32,599,613 (14.9%), as calculated in Mr. Wrigley's testimony.

1 **General Comments on the Opposing Testimony**

2 **Q. What general comments do you have on the opposing testimony filed by**
3 **Staff, Public Counsel and ICNU in this proceeding?**

4 A. Two of these parties are recommending that the Company *reduce* its rates in
5 Washington. (Staff is proposing a reduction of $4.2 million (1.9%), while ICNU
6 is proposing adjustments of $41 million that would produce a negative revenue
7 requirement. Public Counsel, for its part, does not calculate an overall revenue
8 requirement recommendation.) These proposals are extreme, and seem
9 unreasonable on their face. The Commission very recently investigated the
10 Company's Washington revenue and expenses, and established the Company's
11 Washington revenue requirement about one year ago – in mid-November 2004 –
12 in Docket No. UE-032065. If Staff's and ICNU's recommendations are to be
13 believed, the Company's costs of doing business in Washington have actually
14 *declined* during the intervening period. This flies in the face of empirical
15 evidence of increases in areas such as cost of capital, medical, pension costs and
16 commodity costs (including natural gas and coal), as well as the impact of new
17 investments.

18 **Q. What are your observations regarding the parties' cost of capital**
19 **recommendations?**

20 A. The parties' cost of capital recommendations are extreme and unreasonable, and
21 fall far short of providing an opportunity for the Company to earn a return that
22 would allow attraction of capital on reasonable terms. Staff's recommendations
23 in particular are noteworthy. In the Company's last Washington general rate case

1 – which was settled by stipulation in November 2004 – Staff agreed that an
2 overall cost of capital of 8.39 percent was just and reasonable for PacifiCorp.
3 Now, less than a year later, Staff is proposing an overall return of 7.40 percent. In
4 other words, if Staff's position is to be believed, the cost to the Company to raise
5 capital is *nearly 100 basis points less* now than it was one year ago, which is
6 squarely at odds with trends in the capital markets over that period, as discussed
7 in Dr. Hadaway's rebuttal testimony.

8 Moreover, Staff's testimony features an outrageously low 8.95 percent
9 recommended return on equity (ROE). This figure stands in sharp contrast to the
10 Commission's recent precedent. Puget Sound Energy was granted an ROE of 10.3
11 percent in February 2005, and Avista was granted an ROE of 10.4 percent in a
12 Staff recommended stipulation executed in August 2005. Staff offers no
13 explanation as to why the Company's cost of equity should be set at a level that is
14 135-145 basis points less than PSE's, or Avista's. In fact, both Puget and Avista
15 have lower risk profiles than PacifiCorp by virtue of their Commission-approved
16 PCAMs.

17 **Q. Why is the Company's return on equity so important?**

18 A. In order to provide reliable service at reasonable prices, PacifiCorp is required to
19 commit substantial amounts of new capital. Our ability to do so, however, is
20 coming under increased pressure. In a period of significant infrastructure
21 development, it is in the customers' and shareholders' best interest that the
22 Company be in a strong financial condition in order for it to competitively attract
23 capital. Dr. Hadaway's rebuttal testimony calculates the financial metrics that

1 would be produced using the ROE recommendations of Staff, Public Counsel and
2 ICNU. Use of their ROE recommendations would weaken rather than support the
3 Company's financial condition, and would undermine the ability of the Company
4 to finance its large capital commitments on reasonable financial terms. The next
5 section of my testimony discusses these capital requirements.

6 **The Company's Need for New Capital**

7 **Q. Why Does PacifiCorp need to attract new capital?**

8 A. We need to undertake significant investment across our whole network in
9 response to safety and environmental pressures, network replacement and
10 reinforcement, and an obligation to meet load demands.

11 **Q. Is PacifiCorp planning to invest more capital in generating plant?**

12 A. Yes. In addition to maintaining our current plants, we anticipate focusing on
13 three specific areas of plant investment: 1) emissions reductions; 2) new
14 resources to meet growing demand and replacing other supplies no longer
15 available; and, 3) improvements to hydroelectric facilities pursuant to FERC re-
16 licensing requirements. This strategy is explained in detail within PacifiCorp's
17 2004 Integrated Resource Plan (IRP).

18 Briefly, in the area of emission controls, PacifiCorp estimates that it will
19 spend between $500 million and $1.7 billion by 2025. Further, new generation
20 called for in the IRP, excluding the resources that PacifiCorp is presently
21 acquiring, is expected to require capital investment of $2.67 billion in inflation-
22 adjusted 2004 dollars.

23 Lastly, the Company is also in the process of re-licensing a number of its

1 hydroelectric projects and PacifiCorp has incurred over $54 million on the re-
2 licensing process costs. New requirements contained in FERC licenses or
3 decommissioning orders have the potential to cost the Company around $2 billion
4 over the next 30 to 50 years. In addition, hydro re-licensing may result in
5 operational restrictions that could increase net power costs.

6 **Q. Is generation the only area requiring substantial new investment?**

7 A. No, the Company is also making substantial investments in its power transmission
8 and distribution network. Reliability relates to both adequate generating
9 capability and the ability to safely deliver power to our customers. Reflecting the
10 fact that a significant amount of construction was undertaken around fifty years
11 ago, in the 1950's and the 1960s, the Western region, and indeed the entire
12 nation's energy infrastructure, is in desperate need of replacement and
13 reinforcement. PacifiCorp's IRP identifies transmission investments that will cost
14 approximately $462 million over the next ten years. Far larger in total is the
15 distribution investment required to fund the connection, replacement and
16 reinforcement programs underway in all our states.

17 **Q. Over the short to medium term, how much is PacifiCorp planning to spend?**

18 A. PacifiCorp's most recent Form 10K indicates that the Company's increasing
19 capital expenditure program will exceed $1 billion per year by April 1, 2006.

20 **Q. How does this level of investment compare to funds generated by the**
21 **Company?**

22 A. The level of capital investment in this case will be over two times the depreciation
23 rate. These levels of expenditure cannot be sustained without new financing and,

1 during 2002-2004, PacifiCorp was required to raise over $1.3 billion from new
2 equity and long-term debt, and will continue to raise debt and equity capital over
3 the next several years. Further, ScottishPower is contractually committed to
4 infuse $500 million in equity to improve the Company's financial integrity and
5 improve its chances to retain its current credit rating. Yet, in this proceeding,
6 Staff, Public Counsel and ICNU all propose to disregard all or some of these
7 equity infusions. In contrast, other electric utilities operating in Washington are
8 allowed equity ratios that are *greater* than suggested by their actual equity
9 investment. No explanation is offered for this disparate treatment.

10 **Power Cost Adjustment Mechanism**

11 **Q. Please describe the parties' response to PacifiCorp's proposed PCAM.**

12 A. Staff's response to the Company's PCAM proposal is that it must be rejected
13 because it is based on Revised Protocol. Mr. Buckley acknowledges that Staff
14 could support a PCAM for PacifiCorp if it were consistent with an allocation
15 method supported by Staff. Unfortunately for the Company, Staff is not
16 supporting a long-term allocation proposal in this proceeding. ICNU and Public
17 Counsel also oppose implementation of a PCAM for the Company, for various
18 reasons which we address in our rebuttal testimony. Ms. Omohundro addresses
19 the policy issues associated with the Company's proposed PCAM, while Mr.
20 Widmer addresses the implementation issues. Mr. Tallman responds to the
21 objections raised by Public Counsel witness Black regarding adoption of PCAM.

22 **Q. Isn't Staff's argument for opposing a PCAM somewhat circular?**

23 A. Yes. As described by Mr. Braden (p. 23), PacifiCorp's PCAM proposal should be

1 rejected because the Company supports the Revised Protocol and under Revised
2 Protocol assumptions, non-hydropower system resources from the Eastern
3 Control Area would be available to offset adverse hydropower cost impacts in the
4 Western Control Area. Of course Staff has already rejected the Revised Protocol
5 assumptions about power flows along with Revised Protocol itself. So PacifiCorp
6 finds itself with its proposed allocation method rejected and its proposed PCAM
7 rejected because Staff finds the need for the PCAM to be inconsistent with the
8 previously rejected allocation method.

9 **Q. Does Staff have issues with the Company's PCAM proposal other than its**
10 **reliance on the Revised Protocol?**

11 A. Yes. Mr. Buckley takes issue with the Company's "willing participation in
12 potentially volatile wholesale markets," use of normalized power costs,
13 "speculative" activities of the Company in the wholesale markets, and inclusion
14 of power from Eastern Control Area resources. I will discuss each of these issues
15 individually.

16 **Q. Mr. Buckley states that ratepayers should not protect the Company from**
17 **volatility caused by the Company's willing participation in potentially**
18 **volatile wholesale markets. What is your response?**

19 A. PacifiCorp participates in wholesale markets to meet the needs of its customers in
20 the most economic manner and to supplement its owned resources as needed. It is
21 not clear from Mr. Buckley's comments why "willing participation" in these
22 markets would be imprudent. Nor is it clear how Mr. Buckley would have the
23 Company replace hydro resources in low water years or replace generation lost to

1 unscheduled outages without accessing the wholesale markets. In fact there
2 appears to be no substance at all to Mr. Buckley's comments about the
3 Company's use of wholesale markets.

4 **Q. Do you have any evidence that equity analysts are concerned with power cost**
5 **volatility?**

6 A. Yes. As a result of the Western energy crisis, a significant failure at the Hunter
7 plant, and low hydro conditions, PacifiCorp incurred over $1 billion of excess
8 power costs. Consequently, credit and equity analysts have been paying close
9 attention to the impact of power cost volatility on earnings. As recently as 2004,
10 with no adjustment mechanism available to address the issue, PacifiCorp's
11 earnings suffered again as a consequence of low hydro availability. Again
12 analysts were quick to jump on the issue (amounts quoted are in UK GAAP):

13 **Morgan Stanley, November 10, 2004 (U.S Weather spoils UK Party):**
14
15 *"However this progress, and the very positive outlook for the UK*
16 *Division, is somewhat tarnished by a less positive than expected*
17 *outlook for the PacifiCorp business (ScottishPower's regulated US*
18 *utility). Due to mild weather in H1, PacifiCorp is now "likely to*
19 *fall short" of its full year profit of $1 billion (EBITA) in 2004/05.*
20 *This is a negative surprise to us. We now believe that, barring*
21 *exceptionally helpful weather for the remaining four months of the*
22 *financial year, PacifiCorp is likely to produce profits of around*
23 *$940m. This is 6% lower than the target. Missing this well known*
24 *target is a disappointment in our view, and will be viewed*
25 *negatively. However much of the shortfall is weather related."*
26
27 **Lehmans, November 19, 2004:**
28
29 *"The announcement at SPW's H1 that PPW would miss its 2005*
30 *$1bn EBITA target was not a great surprise given the weak Q1 and*
31 *persistently adverse weather conditions in Q2. What did come as a*
32 *surprise, however, was that this figure is unlikely to be attained*
33 *next year or even in 2007. We believe that confidence in the*
34 *capacity of PPW to deliver has been undermined to such an extent*

1 *that the share's discount to its closest peers, the sector and our*
2 *valuation is unlikely to unwind in the foreseeable future. We do*
3 *not expect SPW to reflect a fuller valuation for PPW until the unit*
4 *is rehabilitated and on course to deliver an ROE well in excess of*
5 *10% (currently sub 9%). Despite the clear improvements in*
6 *SPW's other businesses – especially the UK division, we do not see*
7 *the uplift as sufficient to offset the headwinds the company is*
8 *encountering at PPW."*

9 **Q. How would having a PCAM reduce the credit risk exposure that PacifiCorp**
10 **faces?**

11 A. Standard & Poor's has laid out explicit rules on the issue of debt equivalency and
12 its relationship to power cost recovery mechanisms. Mr. Williams discusses the
13 issue of debt equivalency and the Standard & Poor's approach in his direct and
14 rebuttal testimony. For example, if PacifiCorp has a PCAM in place, the risk
15 factor associated with PPA debt imputation would be reduced from 50 percent to
16 30 percent. In theory, the lower the value of the imputation, the less the burden
17 would be on PacifiCorp's ratings.

18 **Q. Are low actual earnings, or ROE recommendations, of particular concern to**
19 **PacifiCorp at the present time?**

20 A. Yes. PacifiCorp faces more asymmetric commodity risk than many electric
21 utilities, particularly because it does not have regulatory mechanisms available to
22 recover volatile power costs. This is discussed further in Ms. Omohundro's and
23 Mr. Widmer's rebuttal testimony. During the Western energy crisis, PacifiCorp
24 continued to serve Washington customers while absorbing hundreds of millions of
25 dollars of excess power costs to meet customer needs in Washington and across
26 the rest of its service territory. Investor skepticism continues to increase
27 surrounding PacifiCorp's ability to recover prudently incurred power costs going

1 forward. While power markets in the West have fallen since the Western energy
2 crisis, the recent escalation in gas and coal prices, coupled with continued
3 volatility, continues to keep cost recovery at the front of investor minds. Against
4 this backdrop which includes the absence of a power cost recovery mechanism,
5 PacifiCorp is generally viewed as having a higher risk profile than its peers. As
6 an example of this sentiment, Standard & Poor's recently indicated:

7 *"The absence of a power cost adjustment mechanism in any of the states*
8 *PacifiCorp serves is an ongoing credit concern because of the uncertainty*
9 *over the timing and ultimate recovery of potential, new deferred power*
10 *costs."*
11
12 In addition, Standard & Poor's noted on September 22, 2004, that:
13
14 *"The lack of a power or fuel cost adjustment mechanism in any of the*
15 *states that PacifiCorp serves, coupled with reliance on a fairly high level*
16 *of wholesale purchase to meet loads, creates the potential for authorized*
17 *rates to be insufficient to meet actual costs."*

18 **Q. How do you respond to Mr. Buckley's claims that normalized power supply**
19 **costs in rates have a built-in mechanism to capture most variations in power**
20 **supply costs over the long-term?**

21 A. There is merit in setting base rates using normalized power costs. However, the
22 Company must be able to fully recover the prudent costs of serving its customers
23 as those costs are incurred. Creditors are not interested in waiting for power costs
24 to "average-out" before receiving payment. As described above, variations in
25 power costs are not symmetric, and the use of normalized power costs in
26 ratemaking fails to address this issue.

1 **Q. Is there any reason for the Commission to be concerned about "speculative**
2 **activities of the Company in the wholesale markets"?**
3 A. No. PacifiCorp does not engage in speculative trading in the wholesale markets,
4 as discussed in Mr. Tallman's testimony.
5 **Q. In conclusion, what action do you recommend the Commission take with**
6 **respect to PacifiCorp's PCAM proposal?**
7 A. The Company's PCAM proposal is reasonable, fairly balances the risk of
8 recovery of volatile power costs, and puts PacifiCorp on equal footing with other
9 Washington investor-owned utilities that have been authorized to use PCAMs.
10 PacifiCorp's PCAM should be authorized by the Commission in this proceeding.
11 **Revised Protocol Allocation Method**
12 **Q. What are the parties proposing in response to PacifiCorp's proposal to use**
13 **the Revised Protocol inter-jurisdictional allocation method in this case?**
14 A. Staff has proposed that the Revised Protocol be rejected and replaced with a
15 method of its own derivation that it refers to as the "Amended Revised Protocol."
16 Public Counsel also opposes the Revised Protocol, but does not offer an
17 alternative; Public Counsel witness Black outlines an undeveloped "portfolio-
18 based method" and suggests that the approach be developed in further discussions
19 among the parties. ICNU witness Falkenberg also recommends rejection of the
20 Revised Protocol, and would implement a "pre-merger approach" that would turn
21 the clock back 17 years, prior to Pacific Power's merger with Utah Power.
22 **Q. What "amendments" does Staff propose to make to the Revised Protocol?**
23 A. Staff has "amended" the Revised Protocol in a results-driven approach by

1 unilaterally removing certain generating resources and changing the allocation of
2 other resources that Staff has determined do not serve Washington customers.
3 Not surprisingly, Staff's Amended Revised Protocol would allocate significantly
4 fewer costs to Washington.

5 **Q. Does Staff assert that it developed the Amended Revised Protocol method**
6 **with basic regulatory principles in mind?**

7 A. As Mr. Buckley's 216 pages of testimony repeatedly remind us, Staff claimed to
8 be focused on *one* regulatory principle – cost causation. Mr. Taylor discusses the
9 cost-causation issue in his rebuttal testimony. Other regulatory principles such as
10 allowing PacifiCorp to recover prudently incurred costs and earn a fair return on
11 its investment seem to have been less important. These priorities are evidenced
12 by Mr. Buckley's reminder to the Commission that if it didn't like Staff's
13 proposed allocation method, it could simply reject the Company's entire filing.

14 **Q. Was the Revised Protocol the product of a results based analysis, as**
15 **Mr. Buckley claims?**

16 A. No. In fact, this charge is more than a little ironic given Staff's results-driven
17 approach to its inter-jurisdictional cost allocation proposal. I also find it
18 somewhat offensive that Staff appears to be questioning the commitment of other
19 states to regulatory principles. The fact is that all the states that have approved
20 the Revised Protocol recognize that it is grounded in cost causation principles.
21 The difference is that all parties to the MSP process except Staff and ICNU
22 believe that cost causation is grounded in the operation of the Company's
23 integrated system.

1 **Q. Does the application of cost causation principles to PacifiCorp's inter-**
2 **jurisdictional allocation process inherently require the tracking of power**
3 **flows?**
4 A. No. The concept of "cost causation" has a different meaning for different people.
5 There are undoubtedly a number of ways of attributing cost causation on
6 PacifiCorp's system, but I believe that Staff's approach – which requires that the
7 electrical output of generating units actually be traced, as if the electrons were
8 capable of being "color coded" – is the most impractical. Interpreted literally,
9 Staff's proposed basis for allocation would require the determination that at least
10 one electron from each of the Staff-approved generating units is available to every
11 Washington customer at all times and that no electrons from other Company
12 resources are available. This type of power flow is impossible to demonstrate.
13 All of the other states have embraced a perfectly reasonable concept of cost
14 causation based on the operation of an integrated system that serves all customers.
15 Through force of sheer repetition in his testimony, Mr. Buckley attempts to
16 convince the reader that "color coding" electrons is the only reasonable basis for
17 allocating costs to Washington customers. It is not. It is an approach that was
18 considered and ultimately rejected by representatives from four of the five states
19 participating in the MSP process. Mr. Duvall and Mr. Taylor discuss this issue
20 further in their rebuttal testimony.
21 **Q. Do you see any practical evidence that PacifiCorp's integrated operations**
22 **benefit all of its customers?**
23 A. Leaving aside the discussion of power flows, it seems apparent to me that all of

1 the Company's customers benefit from the fact that PacifiCorp is a large,
2 integrated, multi-state utility with a diverse generating fleet and an expansive
3 transmission system that is able to give it access to multiple energy trading hubs.
4 The type of regional utility that would actually fit into the Balkanized world
5 envisioned by Staff could never achieve the benefits of this diversity. While Staff
6 apparently wants to have the power cost characteristics of a small local utility, at
7 the same time Staff's proposed approach would claim a full share of all of the
8 other cost efficiencies that derive from an integrated, multi-state operation.

9 **Q. Have the parties proposed a workable alternative to the Revised Protocol?**

10 A. No. In our view, any alternative approach offered by other parties must take into
11 account whether such an approach would be reasonably acceptable to the other
12 participants in the Multi-State Process. The parties in this proceeding attach no
13 weight whatsoever to this consideration. Staff has proposed no alternative to the
14 Revised Protocol that is supported by independent analysis – or any analysis for
15 that matter. Staff admits that the Amended Revised Protocol is a stop-gap
16 measure that is only appropriate for this case. Public Counsel witness Black
17 describes a "portfolio-based" approach, but admits that it is conceptual in nature
18 and needs further development before it could be used as the basis for setting
19 rates. ICNU witness Falkenberg, for his part, offers a "pre-merger" method that is
20 as results-driven as Staff's in its treatment of Eastside resources, and does not
21 produce reasonable results.

1 **Q. Have the parties had sufficient time to prepare a comprehensive, well**
2 **analyzed, alternative to the Revised Protocol if they wished to do so?**
3 A. Yes. Both Staff and Public Counsel have had since 1989 to come up with a
4 coherent allocation proposal. More recently, all three parties have known since
5 the Commission's order in the last case (Docket No. UE-032065) that allocation
6 issues would be addressed in this case, and they have failed to offer any
7 alternative that is capable of being implemented in this case. Mr. Buckley, for his
8 part, offers vague descriptions of methods that he claims are more conceptually
9 valid than Revised Protocol--referred to as The Full Requirements Contract
10 Model, The Resource Portfolio Model, and The Simplified Control Area Model.
11 After describing each of these approaches, Mr. Buckley admits that Staff has done
12 nothing to develop a working model. Instead Staff proposes to use another stop-
13 gap approach (the Amended Revised Protocol) for setting rates in this proceeding
14 and promises to have a legitimate proposal in time for PacifiCorp's next general
15 rate case. Public Counsel witness Black recommends further collaboration among
16 the parties to develop his "portfolio-based" approach further, disregarding the
17 endless meetings and collaboration that have already occurred on this issue over
18 the past several years. I say that "enough is enough." It is not in the best interest
19 of the Company or its Washington customers to delay a decision on a long term
20 allocation method any longer.
21 **Q. What action do you recommend the Commission take?**
22 A. In the Revised Protocol, the Commission has before it a fully documented,
23 exhaustively analyzed inter-jurisdictional allocation method that has already been

1 approved as fair, just and reasonable by four other jurisdictions. The Commission
2 should adopt the Revised Protocol for use in this case and for future PacifiCorp
3 rate cases. If the Commission still has concerns, they can be addressed by
4 imposing specific, reasonable conditions, as has been done in other states, that do
5 not affect the ability of the Company to plan and operate the integrated system in
6 an optimized and efficient manner for Washington customers. This issue requires
7 resolution in this proceeding, particularly so since failure to resolve the issue is
8 being cited by the parties as the primary reason for rejecting the Company's
9 request to implement a PCAM, as discussed in the preceding section of my
10 testimony.

11 **Consolidated Tax Adjustment**

12 **Q. Please describe the consolidated tax adjustment proposed by Mr. Selecky.**

13 A. PacifiCorp is a wholly-owned subsidiary of PacifiCorp Holdings Inc. (PHI). PHI
14 holds debt related to the acquisition of PacifiCorp by ScottishPower. The amount
15 of this debt was $2.375 billion at March 31, 2004. Mr. Selecky proposes to use
16 the interest that PHI pays on this debt as a deduction in determining the federal
17 and state income tax expense component of PacifiCorp's revenue requirement in
18 this case. His proposed adjustment would reduce the Company's test year
19 expense by nearly $8 million for Washington.

20 **Q. What is your concern with respect to Mr. Selecky's proposed consolidated**
21 **tax adjustment?**

22 A. I have several concerns. First, as discussed in Mr. Martin's rebuttal testimony,
23 the proposed adjustment is contrary to sound ratemaking principles and is

1 unsupported by the facts. Second, the philosophy underlying the adjustment –
2 that customers should *benefit* from deductions that are generated from costs that
3 are *not borne* by customers – represents a significant policy issue for the
4 Commission. If the Commission wishes to consider moving in such a direction, it
5 should do so with the benefit of a full and complete examination of the issue in a
6 forum that would consider as well the circumstances of other utilities in
7 Washington that would be affected by such a radical departure from sound
8 ratemaking practices. It is not the type of policy decision that should be made in a
9 rate proceeding on the basis of only one utility's situation. Finally, adoption of
10 such an adjustment would change the risks associated with PacifiCorp's
11 Washington operations. Given the magnitude of the adjustment – nearly $8
12 million – and the direction of the regulatory environment suggested by use of
13 such a punitive approach, an upward adjustment to the Company's return on
14 equity would be necessary to adequately compensate investors for the increased
15 risks associated with the Company's Washington operations. This issue has not
16 been developed on this record, as the risks were evaluated based on a continuation
17 of the Commission's existing regulatory policies. This is further reason to
18 consider the policy implications of this issue in a more appropriate forum, such as
19 a rulemaking or similar proceeding, in which broader participation can be
20 accommodated.
21 **Q. What is your recommendation with respect to Mr. Selecky's adjustment?**
22 A. For the reasons described above and in Mr. Martin's testimony, the adjustment
23 should be rejected.

Proposals for Low-Income Customers

Q. Has PacifiCorp considered the recommendations made by the Energy Project regarding low-income customers?

A. Yes. The Company has reviewed the four recommendations made by Mr. Eberdt. I will summarize the Company's position on each of these recommendations below.

Q. Please summarize the Company's position on Mr. Eberdt's first recommendation.

A. Mr. Eberdt is recommending that the Company increase its funding for low-income energy assistance to 0.75 percent of gross operating revenues. The Company's current collection rate is 0.26 percent of gross operating revenues, which allows for a maximum of 2,618 customers to enroll and participate annually. While we agree with Mr. Eberdt that an increase in funding is warranted, we propose to implement a more gradual increase in this proceeding. Specifically, the Company proposes to increase the collection rate through Schedule 91 at the same percentage as all residential price changes since the program was implemented. This would result in a 30 percent increase in funds and a collection rate of 0.34 percent of gross operating revenues. At this collection rate, the cap of annual participants would be increased by about 900 customers. This would also result in an increase to the surcharge collected through Schedule 91, with an estimated increase to residential customers from the current monthly charge of 23 cents to 30 cents and a monthly charge increase to industrial customers from $75.00 to $97.50. The Company will also commit to

1 continue to revise the collection rate as residential prices change in the future.

2 **Q. Please summarize the Company's position on Mr. Eberdt's second**
3 **recommendation.**

4 A. Mr. Eberdt's second recommendation is that the Company work with the
5 Commission Staff to track low-income issues in more depth by collecting the data
6 suggested by Howat, et al. The Company agrees with this recommendation, so
7 long as the Company is allowed to clearly define and identify the low income
8 customer data that will be collected from the existing data bases.

9 **Q. What is the Company's position with respect to Mr. Eberdt's third**
10 **recommendation?**

11 A. In his third recommendation, Mr. Eberdt proposes that the Company develop a
12 program to identify and manage arrearages better for households that are unlikely
13 to be able to pay their bills. In response, the Company agrees to participate in
14 efforts to analyze the potential of developing a cost-effective arrearage
15 management program. However, the Company could not commit to actual
16 implementation of a program unless the analysis shows that there is value to the
17 customers and the Company.

18 **Q. Please summarize the Company's position on Mr. Eberdt's fourth**
19 **recommendation.**

20 A. Mr. Eberdt's final recommendation is for the Company to terminate its policy to
21 pay 50 percent of cost-effective measures in the low-income energy efficiency
22 program. Our existing policy is designed to leverage the Company's funding with
23 grants received by our partnering agencies through the State of Washington and

1 the federal government in order to have the maximum number of customer homes
2 weatherized. This approach enables our customers (participants and non-
3 participants) to receive benefits from their tax dollars. Under our existing policy,
4 we cover approximately 50 percent of the associated cost of installing cost
5 effective electric efficiency measures in the homes of income qualifying homes,
6 with the other 50 percent covered by federal and state funds. Upon exhaustion of
7 the Washington State MatchMaker program funds, the Company funds 100% of
8 eligible measures. We currently budget $1 million annually for the program,
9 which is administered by our three partnering local agencies.

10 We believe our current program – with Pacific Power funding 50 percent
11 of measures while are available, and 100% after the state program funds are
12 dispersed – is appropriate. To provide further benefits, PacifiCorp would
13 consider offering rebates on additional cost effective electric measures, as
14 proposed by our partnering agencies. In addition, we understand that one of the
15 funding issues arises from the fact that not all utilities fund low income
16 weatherization. To address this issue, Pacific Power staff, if requested, would
17 work with agency staff to relay program benefits to non-participating utilities in
18 an effort to enlist them in the program.

19 **Overview of Rebuttal Presentation**

20 **Q. Who are the other witnesses in the Company's rebuttal presentation?**

21 A. The following are the witnesses who are offering rebuttal testimony, and the
22 subjects on which they will be testifying:

1 **Samuel C. Hadaway**, FINANCO, Inc., testifies about the Company's required
2 return on common equity.
3 **Bruce N. Williams**, Treasurer, discusses the Company's capital structure and
4 short-term debt costs.
5 **Christy A. Omohundro,** Managing Director, Revenue Requirements, presents
6 the policy discussion in support of the Company's proposed Power Cost
7 Adjustment Mechanism (PCAM), and discusses the Company's support for the
8 decoupling mechanism proposed by NRDC.
9 **Gregory N. Duvall,** Managing Director, Planning and Major Projects, addresses
10 the Revised Protocol method of allocation and related inter-jurisdictional cost
11 allocation issues.
12 **David L. Taylor**, Principal Regulatory Consultant, also addresses Revised
13 Protocol and related inter-jurisdictional cost allocation issues.
14 **Mark R. Tallman,** Managing Director of Commercial and Trading, testifies
15 regarding the Company's resource acquisition process.
16 **Mark T. Widmer**, Director, Net Power Costs, testifies regarding power cost
17 issues, hydro deferrals, and implementation of the Company's proposed PCAM.
18 **Mark T. Klein**, Managing Director of Planning and Analytics, testifies about
19 adjusting for weather normalization.
20 **Erich D. Wilson**, Director of Compensation, offers testimony regarding the
21 Company's incentive compensation programs.
22 **Daniel J. Rosborough,** Director of Employee Benefits, testifies regarding
23 pension and employee benefit costs.

1 **Larry O. Martin**, Senior Tax Director, testifies about the ratemaking treatment
2 of consolidated taxes and the treatment of the IRS tax settlement payments.
3 **Harold D. Elliott**, Assistant Tax Director, Compliance and Regulation, offers
4 testimony regarding the tax treatment of Malin midpoint.
5 **Paul Wrigley,** Regulation Manager**,** presents the Company's revised revenue
6 requirement recommendation in the case, and related testimony on revenue
7 requirement issues.
8 **William R. Griffith**, Director of Pricing and Cost of Service, offers testimony on
9 rate spread and rate design issues.
10 **Q. Does this conclude your rebuttal testimony?**
11 A. Yes.