

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	Docket No. UE-050684
Complainant,)	
)	Docket No. UE-050412
v.)	
)	<i>(consolidated)</i>
PACIFICORP d/b/a PACIFIC POWER &)	
LIGHT COMPANY,)	
)	
Respondent.)	

REBUTTAL TESTIMONY OF RANDALL J. FALKENBERG
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

December 7, 2005

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Randall J. Falkenberg, PMB 362, 8351 Roswell Road, Sandy Springs, GA 30350.

3 I am the same Randall J. Falkenberg who filed direct testimony in this
4 proceeding.

5 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

6 **A.** This testimony will address the direct testimony of Staff witness Alan P. Buckley
7 concerning his recommendations related to PacifiCorp's requested hydro deferral.

8 I also briefly comment on the Natural Resources Defense Council ("NRDC")
9 decoupling proposal.

10 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

11 **A.** My summary is given below:

12 1. Mr. Buckley assumes that the Company's request for deferral should be
13 granted, at least in part. However, in Docket No. UE-020417 the
14 Commission rejected the Company's request for an excess power cost
15 deferral. The precedent in Docket No. UE-020417 argues against
16 allowing a deferral in this case.

17 2. A Commission's decision to allow a hydro deferral should go hand in
18 hand with its adoption of the "filtered water" concept for hydro
19 normalization. If the Commission rejects this concept, there is no basis for
20 a hydro deferral.

21 3. I disagree with Mr. Buckley's proposal to allow deferral and recovery of
22 \$2.1 million of costs related to poor hydro conditions based on current
23 forecasts. If any deferral is allowed by the Commission, it should be
24 based on actual rather than forecasted hydro variances.

25 4. Any allocation of deferred hydro replacement costs to Washington should
26 be based on the Original Protocol allocation factors used in Docket No.
27 UE-030265, not allocation factors proposed by parties in this proceeding.

28 5. ICNU has a number of concerns with decoupling. However, ICNU is not
29 addressing the merits of NRDC's proposal because it does not apply to
30 large industrial customers.

1 **Hydro Deferral**

2 **Q. EXPLAIN THE RELATIONSHIP BETWEEN PACIFICORP'S REQUEST**
3 **FOR A HYDRO DEFERRAL IN THIS CASE AND THE COMMISSION'S**
4 **RECENT DECISION IN DOCKET NO. UE-020417.**

5 **A.** In Docket No. UE-020417, the Commission rejected PacifiCorp's request for
6 deferral of excess power costs. The Commission's primary basis for that decision
7 was that the Company had not carried its burden of proof to establish the proper
8 basis for deferral of excess power costs, and that the lack of an approved
9 jurisdictional allocation method made deferral even less feasible.^{1/} There are
10 many parallels between the current request for hydro deferral and the request for
11 deferral made in Docket No. UE-020417. On the basis of this precedent, the
12 Commission should deny the request for deferral in this proceeding.

13 **Q. HAS PACIFICORP DEMONSTRATED ON THE BASIS OF THE**
14 **RECORD IN THIS CASE THAT DEFERRAL OF POWER COSTS IS**
15 **JUSTIFIED?**

16 **A.** No. In fact, the Company presented no evidence or testimony in support of its
17 deferral request. Only an application has been filed. While the Commission
18 found the Company's filing (complete with substantial testimony and exhibits)
19 inadequate and unpersuasive in Docket No. UE-020417, in this case, there is no
20 supporting evidence provided by the Company. On this basis alone, the
21 Commission should reject the request for a deferral. The Company should not be
22 allowed to file testimony in support of its deferral application for the first time in
23 its rebuttal testimony, because other parties would not have an opportunity to
24 respond to this testimony.

^{1/} Re PacifiCorp, WUTC Docket No. UE-020417, Sixth Supp. Order at ¶¶ 30-32 (July 15, 2003).

1 **Q. ARE THERE OTHER SIMILARITIES BETWEEN THE CURRENT**
2 **REQUEST AND THE COMPANY’S REQUEST IN DOCKET NO.**
3 **UE-020417?**

4 **A.** Certainly. In UE-020417, two significant problems proved quite vexing to the
5 Commission. First, because the prior PacifiCorp case was settled on a “black box
6 basis” the Commission lacked a suitable baseline from which to establish
7 normalized power costs.^{2/} Second, there was no accepted or approved
8 interjurisdictional allocation methodology available to determine the proper
9 allocation of deferred power costs to Washington in Docket No. UE-020417.^{3/} As
10 a result, the Commission denied the deferral request because, in part, it did not
11 believe a suitable basis existed for determining either the overall amount of excess
12 power costs or the portion of those costs that should be assigned to Washington.

13 In this proceeding, there are some important similarities. The prior
14 PacifiCorp general rate case (Docket No. UE-032065) was also a settled case, and
15 the Stipulation clearly did not resolve the issue of the jurisdictional allocation
16 method. Thus, the same problem that concerned the Commission in UE-020417
17 is also present in the instant proceeding.

18 It is true that certain power cost issues were addressed in the Stipulation in
19 Docket No. UE-032065. However, it is a matter of interpretation for the
20 Commission to resolve whether it adopted specific elements of the revenue
21 requirement determination in that case or whether it merely adopted an “end
22 result” from a stipulation it found satisfactory. The “end result” aspect of the

^{2/} Id. at ¶¶ 26-27.

^{3/} Id. at ¶ 30.

1 Stipulation was discussed in the testimony of Staff witness Braden and the
2 statements found in the Order.^{4/}

3 While I believe that the Commission intended to adopt the specific
4 elements of the Stipulation, including the power cost determination, Mr. Braden’s
5 testimony and the Commission Order certainly cloud the issue. If the
6 Commission did not adopt specific power cost results, particularly the filtered
7 water methodology, then there is no basis for a deferral in this case, similar to
8 Docket No. UE-020417. In any case, the question of a proper interjurisdictional
9 allocation method remains unsettled, making deferral of hydro costs problematic.
10 All of these factors suggest that, just as in Docket No. UE-020417, the
11 Commission should deny the request for a deferral of hydro costs.

12 **Q. EXPLAIN THE SIGNIFICANCE OF THE “FILTERED WATER” ISSUE.**

13 **A.** The issue of hydro normalization is quite important to this proceeding. In Docket
14 No. UE-032065, Staff’s proposed “filtered water” adjustment was an element of
15 the power cost calculation adopted in the Stipulation.^{5/} Under this methodology,
16 power costs are computed using historical water years, but extreme events are
17 excluded from the computation. Under the filtered water concept, deferrals would
18 be allowed in years when conditions exceeded those included in normalized rates.
19 ICNU believes that the filtered water approach is a reasonable approach. If the
20 Commission intended its adoption of the Stipulation in Docket No. UE-032065 to
21 signify its approval of the filtered water method, then any deferral that it allows in
22 this case should reflect only hydro variations that exceed those modeled in Docket

^{4/} WUTC v. PacifiCorp, WUTC Docket No. UE-032065, TR. 659:3-24 (Braden); WUTC v. PacifiCorp, WUTC Docket No. UE-032065, Order No. 6 at ¶¶ 46, 50 (Oct. 27, 2004).

^{5/} WUTC v. PacifiCorp, WUTC Docket No. UE-032065, Stipulation at Att. B (Aug. 27, 2004).

1 No. UE-032065. If the Commission does not believe the filtered water approach
2 is a sound method, and merely adopted it as a means of achieving an end in the
3 prior case, then there is no basis upon which to make a deferral calculation in this
4 proceeding because no hydro baseline exists. Consequently, the filtered water
5 normalization method and the deferral mechanism should go hand in hand. For
6 this reason, if the Commission allows a deferral, I agree with Mr. Buckley's
7 proposal to utilize a 15% deadband to recognize the filtered water methodology.

8 **Q. ASSUMING THE COMMISSION ALLOWS A DEFERRAL OF POWER**
9 **COSTS IN THIS CASE, DO YOU AGREE WITH MR. BUCKLEY'S**
10 **CALCULATION?**

11 **A.** No. Mr. Buckley assumes that the allocation of deferred hydro costs should be
12 based on the jurisdictional hydro allocation factors he recommends in his
13 "Amended Revised Protocol" model. Likewise, PacifiCorp recommends the use
14 of its special hydro allocation factors found in the Revised Protocol methodology
15 it proposes in this case. However, the deferral period began March 18, 2004. At
16 that time, the rates in effect were those established in Docket No. UE-032065.
17 Based on the Stipulation in UE-032065, the revenue requirement was based on
18 the Original Protocol method filed in that case, not the Revised Protocol. Thus,
19 deviations of actual costs from those already included in rates should reflect the
20 allocation factors contained in the Original Protocol as filed in Docket No. UE-
21 032065, not allocation factors proposed by Staff or the Company for rates
22 intended to go into effect in a future period.

1 **Q. THE STIPULATION ADOPTED IN DOCKET NO. UE-032065 REQUIRES**
2 **PACIFICORP TO MAKE “ROUTINE REGULATORY FILINGS” ON**
3 **THE BASIS OF THE REVISED PROTOCOL. DOES THIS REQUIRE**
4 **THAT THE REVISED PROTOCOL ALLOCATORS SHOULD BE USED?**

5 **A.** No. First, there is the question of whether a substantial deferral of this nature is a
6 “routine regulatory filing.” I submit it is not.

7 Second, this was merely a *filing* requirement, not an indication of future
8 rate treatment. Routine filings require some kind of allocation method, and for
9 this reason, the Revised Protocol was used. The proper approach for a deferral,
10 however, is to determine the difference between costs already included in rates,
11 and the actual levels that occur. This can only be properly done by using the
12 same method that was used to develop the rates in the most recent case – which
13 was the Original Protocol. Of course, as noted above, there is some question as to
14 whether the Commission actually used the Original Protocol methodology in
15 Docket No. UE-032065. If not, then there is no basis for allocation of deferred
16 costs to Washington.

17 **Q. HAVE YOU CORRECTED MR. BUCKLEY’S CALCULATION?**

18 **A.** Yes. Exhibit No.____(RJF-18) presents a corrected deferral calculation based on
19 the SE and SG allocation factors used in Docket No. UE-032065. Note that this
20 analysis also includes the eastern hydro resources because the rates approved in
21 that case include all of the costs of eastern resources. This analysis shows a
22 projected total deferral of approximately \$1.3 million for 2005.

1 **Q. DO YOU AGREE WITH MR. BUCKLEY’S PROPOSAL TO ALLOW THE**
2 **COMPANY TO RECOVER \$2.1 MILLION OVER THREE YEARS?**

3 **A.** No. Mr. Buckley proposes to use a mixture of actual and currently projected
4 replacement hydro costs. It is not reasonable to treat projections of future hydro
5 replacement costs as if they were actual costs for the purposes of a deferral.
6 Recent forecasts of the hydro deficit have varied substantially. It is possible that
7 no deferral will be required, based on Mr. Buckley’s deadband, if hydro
8 conditions improve in the months ahead. In any case, Mr. Buckley’s proposal to
9 use current projections instead of actual results will short-change either the
10 Company or customers, depending on what actual conditions materialize in the
11 months ahead.

12 **Decoupling**

13 **Q. NRDC WITNESS CAVANAGH PROPOSES A DECOUPLING**
14 **MECHANISM. PLEASE COMMENT.**

15 **A.** ICNU has a number of concerns with the decoupling concept. However, Mr.
16 Cavanagh’s proposal would not apply to industrial customers taking service on
17 Schedule 48T. As a result, ICNU does not object to the mechanism proposed by
18 NRDC. The Commission should not view ICNU’s silence on this matter as an
19 endorsement of the decoupling concept. In addition, ICNU should be provided an
20 opportunity to submit testimony on this issue if any party proposes that
21 decoupling should apply to Schedule 48T.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 **A.** Yes.