BEFORE THE WASHINGTON STATE

UTILITIES AND TRANSPORTATION COMMISSION

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

EVIDENTIARY HEARING, VOLUME V

Pages 131 - 416

ADMINISTRATIVE LAW JUDGE MARGUERITE E. FRIEDLANDER

9:33 a.m.

May 2, 2016

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EVIDENTIARY HEARING

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OLYMPIA, WASHINGTON; MAY 2, 2016

9:33 A.M.

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JUDGE FRIEDLANDER: We'll go on the record.

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

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

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

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

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

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

THE REPORTER: No.
JUDGE FRIEDLANDER: Okay. Thank you.
MS. MCDOWELL: Thank you.
JUDGE FRIEDLANDER: Appearing today on behalf of Staff?
MS. CAMERON-RULKOWSKI: On behalf of Staff, Jennifer Cameron-Rulkowski, Assistant Attorney General. And with me is Julian Beattie, and also with me is Patrick Oshie and also Christopher Casey.
JUDGE FRIEDLANDER: Thank you. Appearing today on behalf of Public Counsel?
MR. FFITCH: Good morning, your Honor. Thank you. Simon ffitch with the Office of Public Counsel, the Washington State Attorney General's Office.
JUDGE FRIEDLANDER: Thank you. Appearing today on behalf of the Energy Project?
MR. PURDY: Good morning. This is Brad Purdy appearing on behalf of the Energy Project.
JUDGE FRIEDLANDER: Thank you. Appearing today on behalf of Boise White Paper?
MR. COWELL: Appearing on behalf of Boise White Paper, your Honor, Jesse Cowell.
MR. PURDY: I'm not sure we have a good --
MR. COWELL: Sorry. Again, for the record, good morning. Appearing on behalf of Boise White Paper,

Jesse Cowell.

JUDGE FRIEDLANDER: Thank you. And appearing today on behalf of the Sierra Club?

MR. RITCHIE: Your Honor, Travis Ritchie on behalf of the Sierra Club.

JUDGE FRIEDLANDER: Thank you. Is there anyone representing the Northwest Energy Coalition?

MS. GERLITZ: We don't have legal counsel here today, no.

JUDGE FRIEDLANDER: Okay.

MS. GERLITZ: I'm Wendy Gerlitz.

JUDGE FRIEDLANDER: Okay. Thank you.

MS. GERLITZ: Okay.

JUDGE FRIEDLANDER: Can you come up and spell your last name?

MS. GERLITZ: Oh, sure.

JUDGE FRIEDLANDER: Thanks.

MS. GERLITZ: Wendy Gerlitz, G-E-R-L-I-T-Z.

JUDGE FRIEDLANDER: Thank you. So I think we've heard from the parties.

Is there anyone on the conference bridge who wishes to make an appearance?

Hearing nothing, it's my understanding that the parties wish to admit all exhibits that are pre-filed, including cross-exam exhibits; is that

correct?

MS. CAMERON-RULKOWSKI: That's correct, your Honor.

JUDGE FRIEDLANDER: Thank you.

MS. MCDOWELL: This is Katherine McDowell for Pacific Power. We also agree with that stipulation, which we were able to resolve over the weekend.

JUDGE FRIEDLANDER: Thank you.

(All proposed exhibits admitted.)

JUDGE FRIEDLANDER: Are there any procedural matters that need to be addressed before we begin the hearing? Okay.

MS. CAMERON-RULKOWSKI: Your Honor, one question.

JUDGE FRIEDLANDER: Sure.

MS. CAMERON-RULKOWSKI: Did you want a shorter form of direct examination when we introduce our witnesses and tender them for cross?

JUDGE FRIEDLANDER: I was just about to get to that, but thank you. That was a good segue.

So I do want the parties who are sponsoring the testimony to lay the foundation for each of the witnesses after I swear them in, and then we'll begin -- we'll get into cross-examination and possible clarification questions from the bench.

So are there any other procedural issues before I bring in the commissioners?

MS. MCDOWELL: Your Honor, Katherine McDowell again. Are you -- in terms of the order of the cross-examination, will you just go over across the column, Staff --

JUDGE FRIEDLANDER: Yes. Yes.

MS. MCDOWELL: Okay. Great.

JUDGE FRIEDLANDER: We'll start with Mr. Dalley and then -- is it "Daley" or "Dalley"?

MS. MCDOWELL: Dalley.

JUDGE FRIEDLANDER: We'll start with Mr. Dalley and go right across the board, Staff, Public Counsel and Boise.

MS. MCDOWELL: Thank you.

JUDGE FRIEDLANDER: You're welcome. All right. If there's nothing else, I'll go get the commissioners. Thank you.

Mr. Dalley, if you would remain standing. Raise your right hand.

R. BRYCE DALLEY, witness herein, having been first duly sworn on oath, was examined and testified as follows:

EXAMINATION BY MS. MCDOWELL / DALLEY

JUDGE FRIEDLANDER: Thank you. Please be seated.

Ms. McDowell.

MS. MCDOWELL: Thank you, Judge Friedlander, and good morning, commissioners.

*** EXAMINATION BY MS. MCDOWELL ***

BY MS. MCDOWELL:

Q. Mr. Dalley, how are you employed?

A. I'm Vice President of Regulation for Pacific Power.

Q. And in that capacity, have you prepared exhibits and testimony for the proceeding today?

A. I have.

Q. And for the record, are those exhibits and testimony RBD-1T through RBD-4?

A. That is correct, yes.

Q. Mr. Dalley, do you have any changes or corrections to your pre-filed testimony or exhibits?

A. I do. I have one correction.

Q. Is that to your direct testimony or your rebuttal testimony, Mr. Dalley?

A. Rebuttal testimony that's identified as Exhibit RBD-3T.

Q. Can you identify the correction or change that

you have, Mr. Dalley?

A. Yes. It's on page 25 of that exhibit, RBD-3T, line 8, should be corrected. The word "retirement" -- it says "post-retirement benefits." The word "retirement" should be replaced with "employment." So it should read "post-employment benefits."

Q. Thank you, Mr. Dalley.

Do you have any other changes or corrections to your pre-filed testimony?

A. I do not.

Q. If I were to ask you the questions set forth in your pre-filed testimony today, would your answers be the same?

A. Yes, they would.

MS. MCDOWELL: Mr. Dalley is available for cross-examination, Judge.

JUDGE FRIEDLANDER: Thank you.

Ms. Cameron-Rulkowski? Or Mr. Beattie. Thank you.

MR. BEATTIE: Thank you, Judge Friedlander.

*** EXAMINATION BY MR. BEATTIE ***

BY MR. BEATTIE:

Q. Good morning, Mr. Dalley.

A. Good morning.

Q. My name is Julian Beattie. I'm with the

EXAMINATION BY MR. BEATTIE / DALLEY

Attorney General's Office representing Commission Staff. Thank you for being here this morning.

I'd like to talk about accelerated depreciation.

Are you familiar with the testimony of Joanna Huang that was filed in this docket?

A. Yes, I am.

Q. Then you know that Commission Staff has a concern about whether the evidentiary record is sufficient to support the Company's proposal in this matter, right?

A. Yes. It's my understanding that Staff's position is that there's not a depreciation study.

Q. Well, this morning I'd just like to find out if you can help me figure out whether there is a sufficient evidentiary basis for the Company's proposal.

Okay?

A. Okay.

Q. So you have testified that Pacific Power's proposal is a policy-based response to new laws and regulations that may shorten the useful lives of coal plants, correct?

A. That is correct.

Q. So it must be the Company's position that the Commission may establish new depreciation rates for policy reasons only; is that correct?

EXAMINATION BY MR. BEATTIE / DALLEY

A. Not necessarily only for policy reasons, but that is certainly a consideration for the Commission when establishing depreciation rates.

Q. Did the Company provide any non-policy reasons for its proposal in this case?

A. No, it did not. As part of this case, we have not submitted a new engineering or technical study associated with the facilities at our Jim Bridger plant or our Colstrip plant, but we have proposed to modify those lives to address the emerging environmental policies that exist here in Washington and federally.

Q. The currently-approved depreciation rates are based on a study, correct?

A. Yes, they are. The rates that are currently in effect were approved by the Commission as part of our '13 -- it was actually our 2012 depreciation study, but it was approved in 2013.

Q. So to confirm, the Company's position is that the Commission can depart from those study-based depreciation rates for policy reasons, correct?

A. Yes. The Commission can reset and adjust depreciation rates in any proceeding, and we've proposed that the time is right in this proceeding for the Commission to do so based on the policy -- environmental policy, I guess, framework for conditions that exist

today, yes.

Q. Thank you. One of the rationales provided by the Company for accelerated depreciation in this case is that doing so will align the depreciation rates with those currently approved in Oregon; is that correct?

A. Yes.

Q. I'd like to probe the alignment rationale for a few minutes.

Adopting Oregon's depreciable lives will not actually align the rates. Do you understand?

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

Q. And that's because, even if we were to set the end life at the same end point, we have a lot of catching up to do in Washington because Oregon has already been operating on these shortened lives; isn't that right?

A. That is correct.

Q. So we're not really aligning with Oregon except for the very last day when we finally catch up under the Company's proposal?

A. We are aligning the useful lives of the facilities between Washington and Oregon, so that's the alignment I'm describing.

Q. Isn't it true that aligning with Oregon means falling out of alignment with the other states in which

the Company operates?

A. Yes, it would. Our other states are using the depreciation lives that are currently approved here in Washington. So it would deviate from those other states, but would align with Oregon that has a shorter life for those facilities.

Q. So what have we accomplished if we fall out of alignment with Utah, Idaho, Wyoming and California?

A. Well, I think we've -- we'll have made significant progress here for our Washington customers in that we will be minimizing the future rate impacts associated with, potentially, acceleration of depreciation rates in the future.

And so by addressing this issue now and accelerating those lives to a shorter life today, we could do so at a modest impact to customer rates. If we wait and adjust those rates at a future date, the impact to customers could be much greater, and that's what we're trying to address here by aligning the lives now.

Q. But true or false, aligning rates with those in Oregon has no impact on, say, how the Utah Commission treats the operating life and the depreciable lives of these plants?

A. That is correct. Each Commission has jurisdiction over the depreciation rates that are used

in that state.

Q. So Mr. Dalley, your assumption -- your big assumption, I'll say, is that Colstrip 4 and Jim Bridger, the plants that we're talking about, will, in fact, undergo early retirement?

A. That's not my testimony. My testimony is that, with the existing and emerging environmental policies here in Washington and federally, the risk associated with early retirement is greater than what we had when we established those rates in 2013. And by acting now, the Commission and the Company can position our customers for a future where it does not have as significant of impacts to our customers to adjust those rates.

Q. I understand your rationale. What would you say is the probability that either of these plants will actually go out of service earlier than their currently-approved depreciable lives?

A. I think it's difficult to determine, but I would say, based on the political environment, and as well as the policies, it's more likely than not that the useful lives would be shortened rather than -- to even maintain their existing ones, or be lengthened.

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

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

to shut down these facilities on those dates, but our proposal here is one to mitigate risk for customers in the future.

Q. Okay. So the answer, again, is you're just speculating?

A. We're -- I guess we're trying to adapt and make sure that we could position customers and the Company for a future where we don't have to have those dramatic increases, but there is no specific shutdown date identified at this time for those facilities.

Q. And when you say there is no specific shutdown date, you mean the Company has not committed to a specific shutdown date for either of these facilities?

A. That is correct.

Q. How do we know that the Company will not simply continue to invest in these facilities beyond what you are currently advocating as their depreciable lives?

A. Each of the investments the Company makes at its facilities will be reviewed by the Commission for prudency, and they will also be evaluated based on the economic conditions that exist when those investment decision are made. And so the Commission would have full transparency and record for those decisions should they be made.

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

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

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

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

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

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

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

THE WITNESS: Thank you.

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

EXAMINATION BY MR. FFITCH / DALLEY

I apologize for the mispronunciation.

I believe Mr. ffitch.

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

*** EXAMINATION BY MR. FFITCH ***

BY MR. FFITCH:

Q. Good morning, Mr. Dalley. Simon ffitch for the Public Counsel office.

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

JUDGE FRIEDLANDER: Thank you.

BY MR. FFITCH:

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

A. That is correct.

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

EXAMINATION BY MR. FFITCH / DALLEY

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

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

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

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

A. Yes, that's correct.

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

A. Yes, it did, in 2014.

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

Is that your testimony?

A. Yes.

Q. Have you identified any specific safety and

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

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

Q. I'll restate the question.

A. Thank you.

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

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

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

safe and reliable service?

A. No, it did not.

Q. Is it your position that if the Company is not allowed to accelerate the recovery of Jim Bridger and Colstrip plant depreciation in this case, the Company will not make investments that are needed to provide safe and reliable utility service?

A. No, that's not my testimony. I think you have to look at the test period kind of in totality, all of the elements. And here, in this case, we have some significant capital investments that are necessary to maintain the system and keep our system safe, but there's also a proposal to accelerate depreciation. Those components together comprehensively equate to the rate increases that we're proposing as part of this case.

So in the first year, as revised in our rebuttal testimony, 2.69 percent, and in the second year, 2.99 percent. But a significant element of that increase is associated with accelerated depreciation of our coal facilities. And because of that kind of modest impact to customer rates, with all of those things considered, we think it is the right time to make that adjustment on accelerated depreciation.

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

EXAMINATION BY MR. FFITCH / DALLEY

marked as Cross-Exhibit RBD-8CX.

Do you have that?

A. Yes, I do.

Q. And would you agree that that is testimony filed by or on behalf of PacifiCorp by Mr. Henry Lay in the 2013 depreciation docket?

A. Yes, it is.

Q. And if you look at the testimony on the page, Mr. Lay provides a definition of depreciation and generally explains the concept of depreciation, correct?

A. Which page was that?

Q. Page 4. I apologize. I hadn't yet directed you to the page. So if you could please turn to page 4.

MS. MCDOWELL: Mr. ffitch, is that page 4 of the exhibit or page 4 of the testimony?

MR. FFITCH: Let's use the exhibit page. It's page 5 of the exhibit.

MS. MCDOWELL: Thank you.

BY MR. FFITCH:

Q. Is it correct, Mr. Dalley, that starting at page -- starting -- pardon me -- starting at line 14, Mr. Lay restates the definition of depreciation accounting from the American Institute of CPA's as follows: Depreciation accounting is a system of accounting which aims to distribute the cost or other

basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.

That's the definition he provides, correct?

A. Yes, it is.

Q. And then later at -- immediately following that, at lines 20 and 21, he states that "The actual payment for an electric utility plant asset occurs in the period in which it is acquired through purchase or construction," correct?

A. Yes, that's what it says.

Q. Now, if you would, can I get you to turn to Cross-Exhibit RBD-7?

A. I'm there.

Q. Do you have that?

A. Yes.

Q. And those are general instructions from FERC for the uniform system of accounts specifically regarding depreciation, correct?

A. That is correct. In preparing -- once I received this cross-exhibit -- this is an excerpt from a rather voluminous CFR, or Code of Federal Regulations, but yes, the page 3 of that exhibit is -- describes depreciation accounting.

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

So if you could turn to page 3. You've anticipated my direction there. Page 3 is really the substance of the exhibit. If you could look at Section A there, Section A describes the method of depreciation accounting and states, "Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property," correct?

A. Yes.

Q. And do you agree with that?

A. Yes.

Q. Is PacifiCorp's proposed accelerated depreciation of the Jim Bridger coal plant assets based on the Company's current best estimate of the service life of the property?

A. Yes. Our proposal considers a number of different factors, and it kind of -- maybe point to part B of that where it talks about service lives. It says, "The estimated useful service lives of depreciable property must be supported by engineering, economic or other depreciation studies."

And so when we're talking about service life,

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

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

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

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

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

year 2032?

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

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

A. Yes.

Q. And do you agree with that?

A. I do.

Q. All right.

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

In that section it goes through a list of items

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

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

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

You were referring to which part of the CFR?

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

JUDGE FRIEDLANDER: Thank you.

EXAMINATION BY MR. FFITCH / DALLEY

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

BY MR. FFITCH:

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

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

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

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

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

EXAMINATION BY MR. FFITCH / DALLEY

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

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

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

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

A. Certainly.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXAMINATION BY MR. FFITCH / DALLEY

A. It could, yes.

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

A. That is correct.

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

A. Yes, that's a possibility.

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

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

Q. Okay. Thank you.

EXAMINATION BY MR. FFITCH / DALLEY

Mr. Dalley, are you aware of recent legislation in Utah that provides for the establishment of a regulatory liability that could be used at some future date to depreciate a thermal generation plant?

A. Yes, I'm generally familiar.

Q. And in that legislation, Utah Commission would determine that it's in the public interest for compliance with environmental regulation or other purposes; that is, the regulatory liability would be used for that purpose?

A. Yes.

Q. And it's true, isn't it, that under that legislation, the depreciation rates are not being changed for Pacific Power?

A. That is correct. The -- the legislation in Utah is a bit different. And as I mentioned earlier, each state has kind of jurisdiction over how they want to treat depreciable lives for investments, and there's differing perspectives, as you could imagine, among our service territory.

The Utah specific legislation allows for a pool of dollars to be used and set aside for potential early retirement of coal facilities, but it's packaged together with a number of different factors, including changing the way the Company recovers its -- the cost of

its demand-side management programs.

And so it's different than what we have here before this Commission as part of this case, but it's a -- it's another way to address some of the risks that we're talking about here.

JUDGE FRIEDLANDER: So Mr. ffitch --

MR. FFITCH: Yes.

JUDGE FRIEDLANDER: -- is this proposed legislation or is this passed legislation?

MR. FFITCH: It's passed, adopted legislation, your Honor.

JUDGE FRIEDLANDER: And what is the citation to that? We'll take official notice of it.

MR. FFITCH: I can get that with you after consultation with our witness.

JUDGE FRIEDLANDER: Okay. Thank you.

BY MR. FFITCH:

Q. I'd like to switch gears a little bit, Mr. Dalley, and talk about the rate plan proposal in the case.

In your rebuttal testimony, you state that the purpose of the rate plan is to address asserted, quote, "earnings attrition," end quote, and cost increases, correct?

A. Could you point me to the cite? That sounds

correct.

Q. I sure can. That's rebuttal testimony, RBT-3 [sic], page 18.

A. Okay. Thank you.

Q. And it's at line 14, I believe.

COMMISSIONER JONES: What page is that, Counsel?

MR. FFITCH: Page 18, your Honor, and it's lines 14 and 15.

BY MR. FFITCH:

Q. Do you see that, Mr. Dalley?

A. Yes, I do. Thank you.

Q. And PacifiCorp has not filed an attrition study in this case, has it?

A. It has not. I clarify in my testimony that we have not filed a formal attrition study in support of our second-year rate increase. We've taken a different approach. We've used our historical under-earnings and ten-year trend of under-earnings as support of that two-year rate plan, but the way we've calculated that second-step rate increase is with discrete and measurable adjustments that will happen to our revenue requirement in that second year.

Q. And you state in your testimony over on page 22, line 5 -- this is your rebuttal testimony, RBT-3 [sic],

that "PacifiCorp is not proposing an attrition adjustment that relies on trending analysis or escalation factors" the way that Avista did in its last general rate case, correct?

A. That is correct. I think the next sentence kind of describes what I was just referring to; it's "based on limited, discrete adjustments."

Q. Isn't the Company essentially just asking for a future test year approach in this case?

A. No. That's not what we've proposed. A future test year would walk all elements of revenue requirement forward to the future rate year. We tried to make our two-year rate plan relatively easy to audit and review and transparent for parties, as we've identified four discrete items, three capital investments, and the expiration of production tax credits as the calculation to quantify that increase for the second year.

Q. So is that a future test year for just those particular cost items?

A. No. Each of those components will be known and measurable well in advance of that second step rate increase. Each of those investments will be completed by the end of this year. In fact, one of them, our EMS/SCADA project, has already been completed; Union Gap, which is the second of the three capital

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

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

JUDGE FRIEDLANDER: That's fine. Thank you.

BY MR. FFITCH:

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

A. Yes, I'm there.

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

That's your testimony, correct?

A. Yes.

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

A. Yes, I do.

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

EXAMINATION BY MR. FFITCH / DALLEY

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

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

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

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

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

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

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

A. No.

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

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

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

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

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

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

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

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

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

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

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

JUDGE FRIEDLANDER: Thank you, Mr. ffitch.

Mr. Cowell?

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

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. And good morning, Mr. Dalley.

A. Good morning.

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

A. Okay. I'm there.

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

prepared to Boise Data Request 102, quoted therein, there's mention of your testimony that the Company's second-year rate increase is based on limited, discrete adjustments, right?

A. Are you referring to the question or the answer?

Q. Within the actual request.

A. Okay.

Q. And we can -- I can refer to the testimony specifically if you'd like.

JUDGE FRIEDLANDER: I'm sorry. Which -- this is multiple data request responses, so which one are you specifically referring to?

MR. COWELL: Oh, I'm sorry, your Honor. This is page one --

JUDGE FRIEDLANDER: Okay. Thank you.

MR. COWELL: -- of Boise Data Request 102.

JUDGE FRIEDLANDER: Thank you.

THE WITNESS: Yes. Thank you, Mr. Cowell. I just wanted to just orient myself to the question and the response here, but --

BY MR. COWELL:

Q. It's about three-quarters of the way down.

A. Yes. I see that, yes.

Q. And in the response you prepared, you also stated that, quote [as read], "Basis for the Company's

second-year increase is earnings attrition," correct?

A. Yeah. It's the two elements in conjunction.

Q. Sure.

A. And so the Company's second-year rate proposal and two-year rate plan is based on our ten-year trend of earnings attrition, and then it is calculated using discrete and known and measurable items for that second year. And so it's those two elements together.

Q. Right. So to clarify, are you asserting that the earnings attrition basis for the second-year increase is founded on a discrete attrition adjustment?

A. No. As I've mentioned earlier in the discussion with Mr. ffitch, we have not prepared a formal attrition study as part of this rate case. We've taken a different approach, one that we believe is easy for parties to review, audit, for the Commission to verify, which are discrete and measurable cost increases associated with plant investments and the expiration of production tax credits.

Q. Okay. Thank you.

Let's turn to the next page, please, page 2 of Exhibit RBD-5CX, and this is our Boise Data Request 103.

Now, would it be fair to say that the Company takes the position that certain adjustments proposed by Public Counsel and Boise are not appropriate for

presentation in a limited issue case?

A. Yes.

Q. Now, you prepared this data response citing to Staff testimony in a prior case in which Staff indicated in an expedited rate filing that certain adjustments would not be included; is that correct?

A. Yes.

Q. And if you would please turn to Cross-Exhibit 6 -- RBD-6CX.

So this is that exhibit that you referred to, right?

A. That is correct.

Q. And if we turn to the first page of that exhibit, right in the subtitle, it's subtitled For Use in a 2014 PacifiCorp Expedited Rate Filing, correct?

A. Yes.

Q. And at other times in this testimony, it also discusses developing rates in an expedited rate filing, that exact term, correct?

A. In this exhibit?

Q. Yes.

A. You said testimony in this exhibit? Yes.

Q. Mr. Dalley, would you agree that in Order 3 in this proceeding, the Commission explicitly did not recognize this filing as an expedited rate filing or an

ERF?

A. Yes, that is my understanding, that the order was issued saying it was not an ERF, but it was a limited issue filing and set it for an expedited procedural schedule.

JUDGE FRIEDLANDER: And just for the court reporter's benefit, that's E-R-F. Thank you.

MR. COWELL: Thank you, your Honor.

BY MR. COWELL:

Q. Mr. Dalley, if you would, please, turn to page 3 of Exhibit RBD-5CX, which is Boise Data Request 104.

And in this data request, Boise asks the Company whether it agreed that both Pacific Power and Boise are recommending a determination on accelerated depreciation on a policy basis, right?

A. Yes.

Q. And you prepared a response to Boise DR 104 stating that Pacific Power's proposal is for a policy-based change in asset depreciation; is that correct?

A. Yes.

Q. In the same request, and this would be right at the end of the actual request, the testimony of Mr. Mullins on behalf of Boise was quoted, recommending that the Commission should evaluate accelerated

depreciation as a, quote, "policy question."

Is that accurately stated there?

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

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

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

Q. Okay. So fair enough.

The first sentence of your response, "Pacific Power agrees that its proposal" also includes an agreement with Boise, not just agreeing to what your proposal states?

A. Yeah.

Q. Okay.

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

Q. Okay. Thanks for that clarification.

If we could turn to page 4 of that same exhibit, which is Boise Data Request 105, the response you prepared addresses an assumption -- and this is right at

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

A. Yes.

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

A. Yes.

Q. And so I want to follow up on the condition here.

Could you elaborate or provide any objective standard around what you mean by "materially modify"?

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

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

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

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

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

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

EXAMINATION BY MR. COWELL / DALLEY

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

Q. Sure.

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

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

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

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

EXAMINATION BY MR. COWELL / DALLEY

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

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

A. Can you give me just a moment --

Q. Sure.

A. -- to refresh my recollection on this response?

I believe the question is asking about the stay-out provision, and my answer here is clarifying when the rates from the Company's next rate case would be effective, which would be in the middle of 2018 at the earliest.

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

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

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

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

Q. Okay. Thank you.

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

A. I'm there.

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

CHAIRMAN DANNER: I'm sorry. What page?

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

CHAIRMAN DANNER: Thank you.

BY MR. COWELL:

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

A. Yes.

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

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

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

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

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

And do you see a distinction there between those terms?

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

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

The last topic I want to address with you

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

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

A. Yes, it has.

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

A. Yes.

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

A. Yes.

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

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

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

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

A. Yes, subject to check.

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

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

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

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

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

A. Yes, that sounds right.

Q. That sounds about right?

A. Subject to check, yeah.

Q. Okay. And the -- that supplemental testimony

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

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

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

A. That is correct.

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

A. Yes, that's my understanding.

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

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

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

Q. Right. But --

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

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

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

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

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

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

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

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

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

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

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

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

MR. COWELL: Thank you, Mr. Dalley.

No further questions, your Honor.

JUDGE FRIEDLANDER: Thank you, Mr. Cowell.

We can either take a break or get into bench questions. So we'll go on a ten-minute break and we're off the record. Thank you.

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

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

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

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

EXAMINATION BY MS. MCDOWELL / DALLEY

MS. MCDOWELL: Okay. Thank you, your Honor.

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY MS. MCDOWELL ***

BY MS. MCDOWELL:

Q. Good morning, Mr. Dalley.

A. Good morning.

Q. So I just have a couple of questions to follow up on the cross-examination.

Staff counsel asked you about the fact that alignment with Oregon in terms of accelerated depreciation would result in unalignment [sic] or falling out of alignment with some of the other states in the PacifiCorp system.

Have you considered those -- you know, those variables, that aligning with Oregon would mean that you would fall out of alignment with the other states, and how did that influence the decision or your proposal in this case?

A. Well, I think it's important to acknowledge that, under the West Control Area allocation methodology, California, Oregon and Washington are the three states in the WCA. And so Oregon, being the largest of the WCA states, we believe it's more important to align kind of with our western regional states, California, Oregon and -- California, Oregon and

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

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

Q. Mr. Dalley, Staff counsel also asked you about your proposal to move the lives of the Colstrip and Bridger units from 2037 and 2046, which are the Bridger and Colstrip current depreciable lives, to 2025. And his question was, was that just your hunch or just speculation that the 2025 lives would be, you know, more likely to be the foreseeable lives of those units.

Can you answer the question? Was your -- is the Company's proposal to use a 2025 life based on a hunch or speculation?

A. No. It's -- it's based on our professional judgment, and it reverts back to the depreciable lives that the Commission here in Washington has approved.

Q. Mr. Dalley, you were also asked by Public Counsel about the -- it's Exhibit 8CX.

Do you have that exhibit in front of you?

A. I do.

EXAMINATION BY MS. MCDOWELL / DALLEY

Q. And Mr. ffitch asked you particularly about the definition of depreciation and -- on page 4.

I wanted to follow up with you on that question and ask you: In that case, did the Company decide against extending the lives of its thermal units, and does Mr. Lay's testimony speak to that issue?

A. Yes. That was a consideration. In that same Exhibit RBD-8CX, exhibit page -- bottom of exhibit page 8, which is the testimony page 7, and then continuing onto the next page, there's a Q and A that Mr. Lay addresses, which asks if the Company considered extending the depreciation lives of steam facilities to mitigate kind of the expense. And in prior depreciation studies, that had been the practice, where if you extended the lives of facilities, it would have less of an impact on depreciation expense and moderate the impact to customers.

But in Mr. Lay's answer, he points to the uncertainty that existed at the time we were developing the depreciation study, and as a result of that regulatory uncertainty, we did not extend the lives; we maintained them. But we note that there was some uncertainty at that time.

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

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

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

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

JUDGE FRIEDLANDER: Thank you. And commissioners?

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. Good morning, Mr. Dalley.

A. Good morning, Commissioner.

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

A. Yes. What --

Q. And can you read the definition of --

A. Yeah, and I was trying --

Q. You said item 11 or something.

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

Q. Correct.

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

Q. Correct. And you had referenced in your answer --

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A. In the Definitions section --

Q. -- an item 11?

A. Item number 12, actually.

Q. Item 12?

A. Yes.

Q. Okay. And you had mentioned other -- you had quoted something about other considerations and factors.

Could you read that again?

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

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

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

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

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

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

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

Q. In Oregon?

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

Q. But that did not require closure, correct?

A. Correct.

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

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

Q. So there's no specific requirement currently in

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

A. Correct.

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

A. No.

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

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

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

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

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

COMMISSIONER RENDAHL: Okay. Thanks.

CHAIRMAN DANNER: Is my mic on?

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. Good morning, Mr. Dalley.

A. Good morning, Chair Danner.

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

A. That's right.

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

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

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

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

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

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

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

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

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

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

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

A. Well, in each --

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

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

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

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

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

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

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

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

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

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

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

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

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

resources.

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

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

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

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

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

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

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

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

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

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

Q. Would you?

A. -- 6 of my direct.

Q. I'm sorry. Your direct?

A. Yes, RBD-1T.

Q. Yeah.

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

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

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

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

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

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

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

A. Well, the way -- unnecessary and burdensome

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

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

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

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

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

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

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

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

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

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

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

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

A. I am not.

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Q. Is that at all part of your thinking?

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

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

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

COMMISSIONER RENDAHL: Okay. Thank you.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

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

A. Good morning.

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

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

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

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

A. Yes, I'm there.

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

A. My understanding is it is not.

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

Is that your assessment at PacifiCorp?

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

Q. Okay. Well, could you answer this question?

What do you anticipate happening after oral

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

Is that your assessment?

A. Yes.

Q. And then what happens after that?

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

Q. Okay.

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

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

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

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

EXAMINATION BY COMMISSIONER JONES / DALLEY

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

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

Are you there?

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

Q. Correct.

A. Yes, I'm there.

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

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

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

component.

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

Q. Okay.

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

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

Q. Okay. Good. Thank you.

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

A. Yes.

Q. Could you turn to page 8 of that?

A. Yes.

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

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

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

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

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

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

Q. That's fine.

A. -- from the '13 depreciation study.

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

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

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

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

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

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

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

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

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

Q. Okay.

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

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

include divisional allocation methodologies."

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

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

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

And so that's what I'm talking about. So I guess to answer your question directly, Commissioner Jones, I don't -- I think the divisional allocation methodologies, the WCA is --

(Interruption by the reporter.)

THE WITNESS: I'm sorry for talking too

fast.

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

BY COMMISSIONER JONES:

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

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

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

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Washington would eliminate at least one of those complexities when evaluating a future allocation methodology, and so that's why I refer to it here.

CHAIRMAN DANNER: Commissioner, can I break in here?

COMMISSIONER JONES: Sure.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. In that regard, when I see our role as trying to look at the evidence and determine what the best estimate of closure would be, it could be that in our analysis we'll find a date that's different than 2025. Maybe, you know, it could be a few years out, it could be a decade out, if we were to change it at all.

And so my question is, is if we were to do that analysis and we were to land on 2031 or 2032, in your opinion, would that be unacceptable because it doesn't align with Oregon?

A. No, it would -- it would create some of the similar challenges that we have today. And so I think getting alignment with the states would be advantageous, at least for the western states; and in particular, on this allocation issue, having alignment would be important.

But as we've experienced with Oregon, having one

state do something differently, we could accommodate that.

Q. Okay. But again, if I'm -- you know, I find the analysis of what is -- what is the right number, that -- to -- to redo these depreciation schedules to be very difficult given what's in front of us, so I'm just trying to figure out how much flexibility you think we have.

A. And I think the Commission has discretion. I think the 2025 date for Bridger and 2032 date for Colstrip are, you know, appropriate dates to use, because it relies on a date that was previously approved by this Commission, and so it's not just a number pulled out of thin air.

It's a date that has been used in previous depreciation studies, and it is also something that's consistent with the largest state in the West Control Area. And so I believe that that's a good date to use as part of this case, and then it wouldn't restrict the Commission from reevaluating that in the future. I think our concern with waiting additional time to evaluate is that you lose years and precious time where you could do something like that without having a more dramatic increase in rates.

And as we see potential new renewable

investments come into the state and as part of our western system, you know, having the cost increase associated with potential acceleration and depreciation -- I mean, we're trying to avoid customers getting hit with kind of the double whammy of new investments coming in and paying for old investments.

And so if we could de-risk kind of that future by paying down some of these coal resources now, I believe that's in the best interest of our customers.

Q. Right. But you also have the opposite of that, which is people may be paying more early on, and if this thing extends into the future, you have not only the intergenerational but you have higher rates at the beginning that you could have avoided if you extended the --

A. Yeah, it certainly exists on both sides.

Q. Well, exactly, so -- so -- and that's why I wanted to just get your idea of what we have the flexibility to do, because it seems to me that this is going to be -- we have to take all of this into effect.

And, again, the policy is not just, when do we want it to close? Well, that's not something -- that's not news we can use. The news we can use is the intergenerational equity. What is -- what's our best guess at the useful life of a plant, and the factors

about who should be paying what when. And those are -- if they're policy issues, those seem to be the policy issues that would be before us.

A. And it's much easier to adjust rates where you're lengthening life than shortening. Because when you're shortening the depreciation life, you're having an upward pressure in customer rates.

And so if the Commission's concerned that the adjustment in this case would accelerate kind of to too short of a life, I mean, that could be evaluated in the future, and just as we did in previous depreciation studies, could be extended. But trying to do it in this case as part of a relatively modest increase to customers and provide that de-risking in the future.

CHAIRMAN DANNER: All right. Thank you.

Thank you for your indulgence.

COMMISSIONER JONES: No. This is a good discussion, and I'm going to follow up on something you said.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. So my last line of questioning is EOP versus AMA -- for the reporter, EOP and capital AMA -- let me pose a hypothetical and have you respond to it, though, based on previous questions from Commissioners Rendahl

and Danner and others.

The next depreciation study is due in 2018, right?

A. Correct.

Q. There's going to be an election in the state of Washington and nationally. The Clean Power Plan, many of these environmental regulations, I would argue, are in limbo until we have more, quote, political uncertainty [sic]. Clean Power Plan is stayed until probably 2018.

The responsibility for shutting down the coal plants, Bridger and Colstrip, lie not with the state of Washington but for the states in which those coal plants are located, Montana and Wyoming.

Let's say there's a CPP and they're required to file a 111(d) plan by 2019, September. Wouldn't it be more rational and more certain for the Company to propose something like that, not just to wait and see, but recognizing these realties and deal with these issues in the 2018, '19 timeframe?

That's a hypothetical, but could you respond, please?

A. Yeah. I think the opportunity now, I still think is ripe. It's an opportune time because the rate increases that we're seeking as part of this case are

relatively modest, and so waiting to the 2018 or '19 timeframe, as in your hypothetical, I think poses some risk of what the rate impacts associated with not only new investments that may be required, but amortization of existing investments, and so waiting creates some risk.

I think what we've provided in this case is some predictability of what rates would be for the next couple of years and provide that de-risking of the future. And so I believe it would be more prudent to act now, and adjust these depreciation rights to a shorter -- the rates to a shorter life, and it could always be reevaluated as things become clearer and it's -- as I mentioned, it's easier to adjust, or at least when you're extending lives rather than shortening them has the impact of reducing rates rather than increasing rates. And so I believe it would be more appropriate to do it now than wait.

Q. And given all those issues that you cite to, Governors' proclamations, Congressional actions, Supreme Courts, you think, A, the Commission has the authority to do this, and, B, the Commission should take the policy initiative to do it at this time?

A. Yeah. The Commission certainly has the discretion to adjust depreciation rates in Washington,

and can do so on a number of different bases, including engineering studies or considering other factors.

And yes, I believe that it would be in our customers' best interest to adjust these depreciation rates now, and provide kind of more flexibility and allow us to adapt to the future regulations, yes.

Q. Okay. I'll finish up on this EOP versus AMA.

If you could turn to pages 30 and 31 of your rebuttal testimony, please. Tell me when you're there, please.

A. Yes, I'm on page 30.

Q. Okay. In this testimony, you recognize that in the 2014 rate case we rejected the use of EOP, right?

A. Yes.

Q. And then we opposed four criteria, as you know, in the past: Inflation, aggressive capital expenditures and other factors in which EOP would be appropriate.

And in your testimony, you cite to two of these criteria, do you not? Regulatory lag and the lack of earning your authorized rate of return.

Are those the two primary factors you cite to?

A. Yes, they are. And I think I mentioned in my exchange with Mr. ffitch that, you know, the abnormal growth in plant could also be a consideration based on the investments that we have in this case.

EXAMINATION BY COMMISSIONER JONES / DALLEY

Q. Abnormal growth in plant. Could you put a number on that in terms of incremental capital expenditures or growth in plant, or is it in anybody else's testimony that you could cite to?

A. I could do some rough math here.

Q. Could you, please?

A. Approximately 300 million of capital additions in this case between year one and year two associated with the Bridger 3 and 4 SCRs, Union Gap substation upgrades, and our Energy Management System or EMS upgrade.

Q. Okay. And does that include the SCADA system you referred to, or is that the same thing as EMS?

A. Yeah. I'm not certain why it has two acronyms, but in the utility business we really like acronyms, so that one has two. EMS/SCADA, and that's Supervisory Control and Data Acquisition.

Q. And then finally, I just want to be clear, if you could go back to your direct testimony, RBT-1T [sic] on page 9. We went through this in the last case, Mr. Dalley, these numbers on alleged under-earning.

Are you there?

A. Yes.

Q. And I'm trying to get a sense of what you think is the most appropriate benchmark to refer to. And for

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

A. Yes.

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

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

Q. Okay.

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

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

Q. Yes.

A. -- that would be beyond the test period.

So if you're looking at earnings in any particular year, I think that the restated is an appropriate benchmark. But all of them are important, and I guess everybody's entitled to their opinion on which is the best. And I guess it really depends on what you're trying to use them for.

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

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

COMMISSIONER JONES: Thank you. Those are all my questions.

JUDGE FRIEDLANDER: Thank you.

COMMISSIONER RENDAHL: Sorry to drag this out, but I have a couple more, Mr. Dalley.

/ / /

EXAMINATION BY COMMISSIONER RENDAHL / DALLEY

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

BY COMMISSIONER RENDAHL:

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

What are your thoughts on that?

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

Q. Is your mic on?

A. Yes, sorry.

Q. Okay.

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

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

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

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

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

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

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

mind, is the incentive that the Company needs to make its proposal for a rate plan work.

Is that your -- is that your testimony?

A. Yes. And really -- I'm really referencing Mr. Ball's testimony of his evaluation for Staff of the rate plan, that he commends the framework, and that rate plans work if there's predictability and kind of a series of rate adjustments that the Company can count on, and then the Company then has the incentive to aggressively manage its costs to live within those means.

I think that the piece that's lacking from Staff's proposal to make that rate plan effective would be that incentive for the Company to manage its costs and to stay out of a case.

And so the rate plan, at least as proposed by Staff, would have kind of no rate element of that plan. It would have the two-year plan, but no rate adjustment. And I think that's the element that's missing, and that's the incentive that's missing.

Q. But if the Company -- if this Commission decides that the basis for the year one increase is not appropriate, then the incentive wouldn't be appropriate?

A. Possibly, although we have -- we have limited the number of issues that we've brought in that year one

presentation to the Commission. We've limited it to a smaller subset of issues than we would in a typical rate case setting.

We have not advocated for an increase in our return on equity. We've not asked for changes in allocation methodologies. There's been a number of items that have been controversial here at the Commission as part of full-blown general rate cases that we've chosen not to bring to the Commission as part of this limited issue filing.

And one of those issues -- the significant issue that's presented, though, is this accelerated depreciation. And so if that element is not considered or approved, then I think that incentive, as kind of a package of regulatory tools that we've brought to the Commission in this case, that incentive may not be there for the Company.

Q. And so if the Company were to grant a rate plan for two years without a year one increase, I understand your testimony to be that the Commission -- or the Company would evaluate whether it would accept that or not; is that correct?

A. That's correct. I think we'd have to take a look at our other regulatory options, whether that be going back to kind of the typical general rate case

filings that we've made in the past.

Q. So you're saying, if the Commission were to order the rate plan, the Company could just come back the next year with a different rate case regardless of the rate plan that had been ordered?

A. Well, it's difficult to speculate exactly what the Company would do, but in order for the rate plan to be successful, I think there has to be a series of determined rate increases. And that's what we've proposed kind of 2.69 in year one and 2.99 in year two, similar to what's been done for Puget and Avista in their kind of multi-year rate plans.

And so with an order that would -- and I think that the hypothetical that you're considering is, if the Commission orders no rate increase, but approves the rate plan, I think that that puts the Company in a very difficult circumstance where, on one hand, we may be prevented from filing for rate relief because of the rate plan, but not receiving kind of the rate recovery associated with the filing in this case. And so that's -- that would be a challenging situation.

Q. Okay. But the Commission's role here is to figure out whether the proposals the Company has made, with the testimony from all the others, means that there's sufficient basis for us to grant something,

correct? That's the decision that we have to make, correct?

A. Certainly.

Q. Okay. Thank you.

A. And I just wanted to make sure that it's evaluated as part of the entire proposal, the different elements.

COMMISSIONER RENDAHL: That's all I have.

JUDGE FRIEDLANDER: Okay. Thank you. I don't often do this, but the commissioners' questions were pretty broad and extensive.

So if you have redirect on the commissioners' questions, I will allow it.

MS. MCDOWELL: Your Honor, thank you. There was a number of questions about environmental requirements, so if I may ask a question on that, I would appreciate that.

JUDGE FRIEDLANDER: Go ahead.

*** EXAMINATION BY MS. MCDOWELL ***

BY MS. MCDOWELL:

Q. So Mr. Dalley, the various commissioners asked you several questions about what -- what environmental policies are there, and what level -- to what extent those were binding on the Company.

So can you explain why it is that you've

proposed accelerated depreciation now in advance of additional binding environmental requirements on the Company?

A. We've made the proposal --

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

JUDGE FRIEDLANDER: Ms. McDowell?

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

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

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

EXAMINATION BY MS. MCDOWELL / DALLEY

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

MS. MCDOWELL: Thank you.

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

BY MS. MCDOWELL:

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

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

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

requirements.

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

JUDGE FRIEDLANDER: Thank you.

And thank you for your testimony, Mr. Dalley.

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: You're excused. We'll go off the record briefly.

(Brief discussion off the record.)

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

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

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

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

KURT STRUNK,
DAVID C. PARCELL, witnesses herein, having been first duly sworn on oath, were examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can sit down.

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

COMMISSIONER JONES: Sure.

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

JUDGE FRIEDLANDER: To lay the foundation.

MS. MCDOWELL: We can swear the witnesses maybe.

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

MS. MCDOWELL: Okay. Good.

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

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

MS. CAMERON-RULKOWSKI: All right.

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

JUDGE FRIEDLANDER: Which document?

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

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

JUDGE FRIEDLANDER: Okay.

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

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

MR. STRUNK: I do not.

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

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

BY MS. CAMERON-RULKOWSKI:

Q. Good afternoon, Mr. Parcell.

A. (By Mr. Parcell) Good afternoon.

Q. Would you please state your full name?

A. Yes. David C. Parcell.

Q. And where are you employed?

A. Technical Associates, Incorporated.

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

A. I am president.

Q. Please direct your attention to DCP-1T.

Is this the testimony that you prepared in

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

A. Yes.

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

A. Yes.

Q. Please walk us through them.

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

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

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

MR. PARCELL: Correct. On DCP-11, the top of the company [sic] is called Parcell Proxy Group. One is Westar Energy. I had improperly key-punched in .45. It should be .75. And that creates a CAPM rate of 6.7.

And by the way, on the same schedule, DTE Energy was blank. That's also 6.7. And that changes the mean --

COMMISSIONER RENDAHL: Is your microphone on?

MR. PARCELL: It is now.

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

MR. PARCELL: Pardon?

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

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

COMMISSIONER RENDAHL: Okay.

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

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

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

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

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

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

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

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

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

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

And that concludes my corrections.

JUDGE FRIEDLANDER: Thank you.

BY MS. CAMERON-RULKOWSKI:

Q. And I'll just finish up, Mr. Parcell.

And in the course of the direct testimony that

you authored that I referred to earlier, you refer to Exhibits DCP-2 through DCP-14. And were all of these exhibits prepared by you or under your direction?

A. Yes.

MS. CAMERON-RULKOWSKI: Thank you.

Mr. Parcell is available for cross or to respond to questions from the bench.

JUDGE FRIEDLANDER: Thank you. Ms. McDowell?

MS. MCDOWELL: Thank you, Judge.

*** EXAMINATION BY MS. MCDOWELL ***

BY MS. MCDOWELL:

Q. Good afternoon, Mr. Strunk.

A. (By Mr. Strunk) Good afternoon.

Q. Mr. Strunk, how are you employed?

A. I'm a vice president with National Economic Research Associates in New York.

Q. In that capacity, did you prepare testimony and exhibits for this proceeding?

A. Yes, I did.

Q. And are those -- is that testimony on behalf of Pacific Power?

A. Yes, it is.

Q. Is your testimony KGS-1T through KGS-38; that includes both direct, rebuttal and exhibits supporting

both sets of testimony?

A. Yes, that's correct.

Q. Do you have any changes or corrections to that testimony?

A. No, I do not.

Q. If I were to ask you the questions that were set forth in your pre-filed testimony today, would your answers be the same?

A. Yes, they would be.

MS. MCDOWELL: Mr. Strunk is available for Commission questions. Thank you so much.

JUDGE FRIEDLANDER: Thank you.

Commissioner Jones?

COMMISSIONER JONES: Thank you.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Good afternoon, Mr. Strunk.

A. (By Mr. Strunk) Good afternoon.

Q. Good afternoon, Mr. Parcell.

A. (By Mr. Parcell) Good afternoon.

Q. Thank you for flying in from the East Coast.

I think that you're from Virginia?

A. (By Mr. Parcell) Yes, I am.

Q. And you're from New York City?

A. (By Mr. Strunk) Yes.

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU245

Q. So welcome. So I don't think this will take too long, but I will go through a few lines of questions on -- probably focusing more on your rebuttal testimonies -- well, rebuttal and your responsive testimony as corrected, Mr. Parcell.

So Mr. Strunk, first with you, looking both at your proxy group and Mr. Parcell's proxy group, one is seven, one is twenty-three companies, I know, but are they generally similar for the purposes of your DCF analysis?

A. (By Mr. Strunk) Well, they were developed using different screening criteria, but they're all electric utilities. I'd say obviously Mr. Parcell has a smaller group, we use different screening criteria, but they're certainly all electric utilities.

Q. Okay. And are there any -- since you filed your testimonies, are there any companies -- this is for both of you -- in the proxy groups that are involved in M & A speculation in trade prints or with rumors or with an actual transaction -- if memory serves, Westar Energy may be the subject of a proposed acquisition by Ameren, as I recall?

A. (By Mr. Strunk) That's certainly possible. It wouldn't affect the analysis because those would have been announced after the study was completed.

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU246

Q. Do you agree with that?

A. (By Mr. Strunk) It sounds -- yes.

Q. Mr. Parcell, do you agree?

A. (By Mr. Parcell) Yes, because my analyses ended in February of this year.

Q. Okay. Mr. Strunk, I've had a chance to review your testimony in the last case in 2014.

You were the cost of capital and ROE witness for the Company, correct?

A. (By Mr. Strunk) Yes, that's correct.

Q. And in that case, as you recall, we chose not to make a new determination of ROE based on the litigation in the court at that time, correct?

A. Yes. That was documented in the order. In addition, you noted that there were substantially similar capital market conditions.

Q. Now, Mr. Strunk, in your testimony in that case, you had a higher range, I think, for your DCF range. I think it was about 150 to 160 basis points as opposed to this case. Do you recall that?

Well, first of all, let's start with the foundational question. What is the range of DCF in this analysis? I'm trying to find the -- I'll find it.

A. It's Exhibit KGS-20 and it's also Exhibit KGS-4.

Q. Correct.

A. So the DCF ranges from 8.88 to 10.4 percent.

Q. And -- well, it's 8.88 to 10.4. Okay. So you would regard your ranges that you proposed in the last case and this case to be in -- approximately in a similar range?

A. Yes. I believe my rebuttal testimony from the last case was 9 to 10.1.

Q. Right, 9 to 10.1, which is 110 basis points, right?

A. Yes.

Q. Okay. Let's talk about that exhibit you just referred to. Was it KGS-20? I thought -- no, it's not. In one of your DCF ranges -- no. It's -- this is more on the comparable earnings.

I'm going to switch to comparable earnings for a minute, where you had a range of 9.63 to 16.61 percent, and that's specified in KGS-20, right?

A. Yes, that's correct.

Q. So I have a question about why you used the Dow Jones Industrial Average as a comparable earnings proxy. I understand the use of the Dow Jones Utility Index, but I don't understand why you're using the Dow Jones Industrial Average, that -- which produces the 16.61 percent number. It seems awfully high.

A. Right. So the reason I look not only to the

regulated utility industry but also to unregulated companies is, is because of the text of the Hope decision, which actually specifies that utility returns should be comparable to unregulated returns of similar risk.

Now, obviously the Industrial Average is going to be riskier than the utilities group, but it does provide a benchmark which, when adjusting for risk, would show that a 10 percent return is reasonable in light of those risk differences.

But it's an external benchmark. I wouldn't say the 16.61 is the right number for utilities. Utilities are of less risk than the industrials. But it does provide a point of reference, if you will.

Q. Doesn't the Dow Jones Utility Index [sic], as I recall, it consists of 30 stocks, but it includes some fairly -- I wouldn't say risky stocks. They're all large cap, capitalization stocks, of course, but it includes quite a -- technology, chemicals, it includes a broad range of unregulated industries that generally have a higher risk reward profile, does it not?

A. No. The Dow Jones Utilities Index --

Q. No. I'm referring to the Dow Jones Industrial Index.

A. Oh, oh, absolutely, yes.

Q. Okay. But you still stand by using that as the upper bounds of your CE, your comparable earnings analysis?

I think Mr. Parcell -- he can correct me if I'm wrong -- I think you used the S & P Composite Index.

A. (By Mr. Parcell) Correct.

A. (By Mr. Strunk) Right. I'm not saying that that's an upper bound that would set the top of the zone of reasonableness for electrical utilities. I simply included it as a point of reference, which is to say that, given the relative risk differences between the utilities and the industrials, that helps to place the overall utility rate of return recommendation in a broader context.

Q. While we're talking about equity and utility indexes, could you please turn to page 6 of your rebuttal testimony, KGS-19T, and tell me when you're there?

A. I'm with you.

Q. Okay. So here in lines 18 through 21 and before, you spend quite a bit of time talking about the volatility in today's equity markets, do you not?

A. Yes.

Q. So I'm having a problem squaring that with the fact that PacifiCorp is not a publicly-traded stock. It

has no equity that's being traded. That's number one. And number two, if you look at the returns of the Dow Jones Utility Index over the past year, and recognize that it is not as volatile as other stock indices, I'm wondering why you still think that the Commission should look at volatility for this particular company. I'm not talking about the proxy group. I'm talking about PacifiCorp, which is owned by Berkshire Hathaway Energy, which is not public traded; Berkshire Hathaway is.

A. Right. So there were a couple of questions baked in there, and let me address them one at a time.

First is the issue of the ownership of Pacific Power.

Q. Right.

A. And while it's true that Berkshire Hathaway Energy is not itself publicly traded, Berkshire Hathaway, the publicly-traded company, does have a significant share in it. So ultimately, some of the equity that is coming into Pacific Power is coming from investors in the equity markets.

Q. Right.

A. And even if it were privately held like Puget, for example, the Commission has made clear, when Puget went private, that the standard -- Puget should not be given a higher return just because it's private than it

would if it had remained public.

So the standard has always been that you're looking to publicly-traded, investor-owned utilities when you're setting a benchmark for electric utility authorized rates.

Q. Okay.

A. But then the second component --

Q. I'm sorry. Go ahead.

A. -- of your question was really around volatility.

Q. Right.

A. And you note that, in the last year, utility stocks have been less volatile than industrials, say. And that has been the relationship historically. That's what we've always thought. We've always thought that utility risk -- utility stocks are relatively safe, they're less volatile.

But I've tracked their volatility relative to the industrials over time, and for the five years following the beginning of the Great Recession, utility stocks were actually more volatile than the S & P 500. It's only in very recent past that they've started to retake on that traditional behavior of being less volatile.

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

you do not cite the VIX Index for the utility industry; you cite the VIX Industry [sic] for volatility for S & P 500 stocks, right?

A. Right, because there's not a specific volatility index associated with utilities.

Q. Okay.

A. You can measure it, but it doesn't trade. So the VIX trades, it's very visible, it's what equity investors look to as a metric for how volatile the markets are.

Q. Where's the VIX today?

A. My understanding is that it's way up in the last week. I couldn't tell you exactly where it is, but it's very high.

Q. Could you supply that for the record?

A. Yes, I can undertake to supply it.

Q. Okay. And maybe -- take it back maybe where it was two months ago as opposed to today.

And will you, subject to check, accept that the -- now, I checked the Wall Street Journal this morning, the 52 return [sic] for the Dow Jones Utility Average is 10.9 percent -- that's the return -- as opposed to the Dow Jones Industrial Average has a negative 1.4 percent return.

So that indicates to me that the Utility -- the

Dow Jones Utility Index, at least over the past 52 weeks, has been pretty favorable.

A. Before I confirm that, could you just clarify what type of return you're talking about? Are you talking about the return on investing in the stock?

Q. Correct. That's a total return, including yield.

A. Okay. It's not the -- what I've done in the comparable earnings analysis.

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

A. Okay. Okay.

JUDGE FRIEDLANDER: And let's go ahead -- do you think you can get that to us today, or are you going to need additional time?

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

JUDGE FRIEDLANDER: Okay. And why don't we have that filed for the record as Bench Request No. 7. Thank you.

BY COMMISSIONER JONES:

Q. Mr. Strunk, I'm going to go back and forth, that's why I have you seated together, if it's all right with you.

Mr. Parcell, do you have any comments on what I just talked about with heightened volatility in today's

equity markets and the returns of utility stocks, both recently and over the years, compared to other types of equity?

A. (By Mr. Parcell) I do. There is a measure of volatility. It's called beta. The beta of any stock is the relative variability of that stock versus the market as a whole. And utility stocks have traditionally had betas of well below one, whereas the market would be a beta of one. So anything less than one is less volatile and less risky in the market.

And I have a schedule -- or Exhibit DCP-14, page 2, shows the most recent value line betas for the proxy groups, both mine and Mr. Strunk's, were roughly .74.

Q. Mr. Parcell, if I could interrupt you, I find it -- this is one of the few areas where the two of you agree on something.

So both of your betas produce a 0.74?

A. We can be reasonable. And as you can see, the S & P Composite 500 -- the S & P 500 composite beta is 1.05, which -- that's what you expect because it's a market index.

So utility stocks have historically had betas less than one, and they currently have betas less than one, so they -- and a case could be made, in a volatile market, utility stocks were a safe haven. Go somewhere

where the volatility's reduced. So that makes utility stocks more attractive, relatively more attractive.

Q. Thank you.

A. (By Mr. Strunk) Commissioner Jones, would you permit just a brief --

Q. Sure.

A. -- rebuttal of that point --

Q. Yes.

A. -- because --

Q. You can have a surrebuttal.

A. Okay. Beta is not a measure of volatility. When you structure a market model to predict how a given equity is going to perform, you structure it as the -- the price of the stock is going to be a function of the beta plus an error term. And it's really the error term that captures the volatility in the stock. It's not the beta. The beta is --

Q. Okay.

A. -- the contribution to -- to non-diversifiable risk that investors require compensation for, but it's not the measure of the volatility.

Q. Okay. Thank you.

I'd like to move on to CAPM now, your CAPM analysis. And by the way, both of you did pretty much the same methodology analysis. You did a DCF, you did a

CAPM, you did a CE, a comparable earnings analysis. The only difference is that you did an RP, a risk premium, and you did not, correct?

A. (By Mr. Parcell) Correct.

Q. So Mr. Strunk, your CAPM result of 9.29 percent is significantly higher than Mr. Parcell's result -- which you just amended, I know -- which ranges from 6.7 to 6.9 percent.

Can you explain that, or give -- give me any thoughts both on the beta, the risk-free rate, which is the long-term treasury rate? I mean, why are they -- that's a pretty significant difference. It's over two -- it's almost 300 basis -- 250 basis points.

So why don't I start with you, Mr. Strunk.

A. (By Mr. Strunk) I don't have Mr. Parcell's analysis in front of me, but I do recall from my rebuttal testimony that there were several issues with Mr. Parcell's analysis. And the primary issue that's going to explain most of that difference is the use of -- is the use -- the choice of the equity risk premium.

Q. Okay.

A. And Mr. Parcell has used a geometric mean, historic geometric mean, and all of the academic literature out there is very clear that the historic

geometric mean is not the appropriate mean for performing a forward-looking analysis of the cost of equity. You should really be using the arithmetic mean.

And the other big difference is that I've focused exclusively on a forward-looking risk premium for the equity risk premium, and I've derived that using a DCF model to back into the expectation --

Q. Okay.

A. -- for the overall market.

Q. So those are the two biggest factors, in your view, that produce such a wide range of results?

I don't want to spend a lot of time on CAPM, because I think each of you largely discount the use of CAPM in today's environment, right?

A. (By Mr. Parcell) I certainly do, yes.

A. (By Mr. Strunk) As do I, yes.

Q. And let's get to that for a minute, because that revolves around monetary policy at the central banks of this country and other countries around the world. And I've been in so many rate case hearings where you come before us, and other capital witnesses, and say, this is a very unusual, abnormal situation, and it's going to come back to normal pretty soon, meaning the Federal Reserve is going to raise interest rates.

And I think you cite that in your testimony,

Mr. Strunk, that we are headed for a period of higher interest rates, do you not, either in your direct or your rebuttal?

A. (By Mr. Strunk) Yes, I do. And the size of the monetary stimulus has been so massive, it's not very easy for the -- for the Fed to unwind it. So the Fed has indicated that it will unwind it, it will unwind it gradually, and that process has begun.

It's not an easy process, because the Fed bought four trillion dollars in capital market assets. It's had seven years of extraordinary interest rate policy at near zero rates, so that's not an easy thing to unwind.

And while, yes, the expectation has been that they would unwind it faster; in practice, it hasn't been possible.

Is the expectation still that they're going to unwind it? Yes. And that's very clear in the most recent --

Q. Right.

A. -- statements of --

Q. So in your direct testimony, I think which was written last fall, you said that it is more than likely that in 2016, the Fed will gradually increase the federal funds rate four times at 25 basis points, somewhere in the range of about a full hundred basis

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

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

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

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

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

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

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

That's what you said?

A. Yes.

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

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

Q. Right.

A. -- in April, so --

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

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

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

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

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

Q. Oh, you didn't?

A. -- CAPM.

Q. Okay. Good.

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

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

(Interruption by the reporter.)

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

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

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

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

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

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

BY COMMISSIONER JONES:

Q. Um-hmm.

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

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

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

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

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

So we don't know what the normal is anymore --

Q. Right.

A. -- but they -- clearly the expectations of interest rates have come down substantially in the past five years.

Q. So it's up to the informed judgments of the three commissioners and our advisors to make that judgment call if we accept a rate plan of two years, or

even one year? That's what it comes down to?

A. Correct.

Q. Because you're saying SURFA, some of the best forecasters, or reputed national experts in this, haven't gotten it right, even during a period of an economic cycle that's going up? This is during a period of recovery --

A. Right.

Q. -- when rates usually go up --

A. Right.

Q. -- not down, right?

A. Yeah. Not only were rates coming down, but the expectation of future rates is less.

Q. Yeah. Okay. Well, enough on that. I think we could speculate all day about what Janet Yellen's going to do and we're never gonna get anywhere so --

A. That's true.

Q. Well, let's talk about the hypothetical capital structure, and Mr. Strunk, back to you.

If you could turn to page 12 of your rebuttal testimony, KGS-19T.

A. (By Mr. Strunk) Yes.

Q. And again, this is plowing old ground. I think both you and Mr. Williams made similar testimonies in the last case when you asked us to make an upward

adjustment to ROE if we maintain the capital structure at 49.1 percent, a hypothetical capital structure, right?

A. Yes. That's simply the application of the financial principle that, if you bear more financial risk, you have a higher --

Q. Right.

A. -- cost of equity. Any cost of capital witness will testify to that.

Q. I think your counsels passed each of you before lunch a copy of the Court of Appeals decision in the State of Washington, Division II, that just came out last week.

Do you have a copy of that?

A. (By Mr. Parcell) Yes, sir.

COMMISSIONER JONES: And I would like to enter this into the record if there are no objections.

JUDGE FRIEDLANDER: I'll take official notice.

COMMISSIONER JONES: Thank you.

BY COMMISSIONER JONES:

Q. If you could turn to page 35 of 39, let's go to page -- well, page 35 to 39 of that Appellate Court decision, Mr. Strunk, deals with this issue pretty directly. I think it's fair to say that the Commission

won pretty soundly on all points related both to QFs and capital structure, but this mainly is capital structure.

But if you could just turn to page 39 at the middle, on there it states, "PacifiCorp's challenge to the Commission's discussion of the effect of a hypothetical capital structure on its credit rating fails."

Do you see that?

A. (By Mr. Strunk) Yes, I do. It's just under the rubric No. 3.

Q. So I guess my question to you is, what is the relevance of all of your testimony on pages 10 through 13 on such an adjustment and hypothetical capital structure if, in fact, the highest court in the state of Washington has affirmed -- not the highest, but the second highest, according to the state of Washington, has affirmed the Commission's 2013 decision, and before, of the use of a hypothetical cap structure?

A. And -- absolutely. Just to clarify, that my testimony was designed to be rebuttal to Mr. Parcell's testimony. The Company is not proposing any changes to any element of the rate of return. So --

Q. Right.

A. -- the Company is willing to live with the existing hypothetical capital structure, the existing

allowed ROE and the existing debt rate.

The purpose of this testimony was to respond to certain statements in Mr. Parcell's testimony.

Q. Well, I understand that. But I guess my question to you is, why did you -- other than that, why did you include it in your testimony, realizing that the Commission had already rejected that, both implicitly twice, and then you -- you spend another three, four pages on it in this testimony, and now we have an Appellate Court decision where basically they said the Company was not correct and it's failed in all of its arguments.

A. Right. Now, I didn't -- I didn't submit evidence. I'm not in the docket --

Q. Okay.

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

Q. Okay.

A. I think we have a different record in every case, and the decisions are based on the record in each case.

Q. So what you're advocating is just more of an academic or a theoretical point, that in capital structure theory, or a cost of capital theory, that a hypothetical capital structure both is not fair -- and I

think even when we look at what you say in your -- in your testimony, lines 15 through 16, you say [as read], "The imputation of a hypothetical equity ratio that is below a utility's actual ratio is, quote, tantamount to a disallowance of costs if the ROE is not adjusted to reflect a higher level of leverage."

So is that a statement that's academic, theoretical in nature, or are you making it specifically for PacifiCorp here?

A. It's academic, because the Company has not requested a change in this -- in its cost of capital. It's a principle that all cost of capital witnesses recognize.

Q. Okay. Mr. Parcell, I'd just like you to briefly -- and let's not spend too much time on this, I think the Court opinion is pretty clear on this -- but do you have any concerns with his use of this theoretical, or this academic adjustment of ROE to reflect a hypothetical cap structure?

A. (By Mr. Parcell) No, because I show on my page 19 of DCP-1T the -- the average equity ratios of all of the companies, that is, electric and combination gas/electric, that are covered by AUS Utility Reports, is less than 50 percent. So I mean, that's --

Q. Okay.

A. -- an equity ratio in the high -- high 40s is -- is not unusual.

Q. Okay. And --

A. (By Mr. Strunk) Commissioner, for the record, I did rebut that statement and provided evidence --

Q. Yes, you did --

A. -- on --

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

And I think your source of data on that one is AUS, is it not?

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

Q. Let's get to the -- finally this issue of the impact, if any, of these new ratemaking mechanisms, relatively new from this company, the ERF, decoupling and the two-year rate plan, and the impact, if any, on the ROE.

Mr. Parcell, in your testimony -- and I think there are two cross-exhibits on this. I don't know if there is going to be any cross, but I think we discussed this in the last couple of cases as well.

But what is your present position on this? As I read your testimony -- and let me get to it. I think it's at the last part of DCP -- yeah, it's on page 36 of your testimony, lines 13 through 19.

And are you there?

A. Yes.

Q. So you say that, as such mechanisms are becoming more common, you're not recommending any specific downward adjustment to PacifiCorp's ROE. On the other hand, I believe that potential -- quote, potential adoption of these mechanisms is risk-reducing to PacifiCorp.

It seems to me you're trying to straddle a middle ground there with your client, and I don't understand exactly what you're saying.

Are these risk-reduction mechanisms or not that should be reflected in ROE?

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

Since the last PacifiCorp I was in, I've also testified in the Puget rebate case. And it became apparent in the Puget case that the Commission's philosophy there was, let's institute decoupling, give it three years, and then evaluate what the impact upon risk [sic].

So when I prepared my testimony in this case, I did not want to put myself in a position, or put the Staff in a position of appearing to recommend a lower return now because of it, so that's why I went to mid-point.

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU271

Now, there are lots of kinds -- or types or kinds of regulatory mechanisms. And the best two from a utility standpoint are decoupling and formula-based -- formula-based rates with true-ups. Those are far and above the better of the two.

And in Mr. Strunk's rebuttal testimony, he did a -- prepared a schedule, or an exhibit, it's KCS-37 [sic].

Q. Yeah, I'm there.

A. And what he did, he took the companies from his proxy group -- no, my proxy group -- my proxy group -- and showed the various mechanisms. Now, these include both gas and electric --

Q. Right.

A. -- but I'll observe, in the column for full decoupling, there are 27 possible cases of decoupling being effective -- the 27 companies, states, subsidiaries listed here. Of those 27, only 5 have full decoupling. So from a -- and these include gas.

Q. Only -- say that again, because I was going to ask Mr. Strunk about this exhibit and other exhibits, but only five have full decoupling?

A. Five of twenty-seven, yes.

Q. Five of twenty-seven?

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

standpoint, only 5 of 27 have it now. So it's coming, but it's not uniform at this point in time. So when you look at a proxy group and their existing mechanisms, relatively few, less than 20 percent, have full decoupling.

Q. And Mr. Parcell, let's not -- full decoupling and partial decoupling, I think you've read our policy statement -- both of you have read our policy statements on decoupling of -- I think it was 2012 -- haven't you, where we describe partial and full decoupling?

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

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

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

Q. Yeah. We've had a 20-year conversation of decoupling on this Commission. We've been discussing it a long, long time.

But the other thing is that this table and Mr. Strunk's other tables do not deal with the other design elements of a decoupling mechanism, such as a soft rate cap, deferral mechanisms, those sorts of things, right?

A. (By Mr. Parcell) Yes. In Mr. Strunk's defense, he's used an S & L financial document, which I have myself, and that was -- this is the information they provided in that document. So this -- this was --

appears to be the best available information at this point in time to compare various utilities and various adjustment mechanisms.

Q. Okay.

Mr. Strunk, I'll -- the -- before I go to Mr. Strunk on this -- Mr. Parcell, so your ultimate recommendation is still an ROE of 9.25 percent. That reflects the totality of both capital market conditions in -- today and over this rate period of two years, and given the ERF, decoupling, taking all of that into impact, your ultimate recommendation is 9.25 percent?

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

Q. Okay. Mr. Strunk, so on this issue of expedited rate filing, decoupling and a two-year rate plan, these -- this is on page 14 to 19 of KGS-1T of your direct testimony, and I may have a few questions on it.

But what is your response to Mr. Parcell and what he just said, first, if you have any?

A. (By Mr. Strunk) Yes, I have another -- a number of points of response.

CHAIRMAN DANNER: I'm sorry, Commissioner. What pages?

COMMISSIONER JONES: Fourteen to nineteen of his direct, of KGS-1T.

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU274

MR. STRUNK: So Mr. Parcell has looked at it from the operating company level, from the holding company level. All of the holding companies have at least one operating subsidiary that has decoupling in place. So when the investment community looks at that, they see that that holding company has a subsidiary with decoupling.

The other thing is that, in some states, you really don't need decoupling because they have symmetric earnings bands, right? If you have a symmetric earnings band that protects you in the case -- in the event that your sales fall off and your earnings go down, then you're protected. You don't need an explicit decoupling mechanism.

BY COMMISSIONER JONES:

Q. Right.

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

Q. Right.

A. -- to make apples-to-apples comparisons of these programs across utilities and across jurisdictions.

Q. But -- but your overall position is still, as it was in the last case, I think, that all of these mechanisms, or most of these mechanisms are, quote, "baked in" into the cost of capital analysis and the ROE

analysis?

A. Yes. The existence of risk-mitigating mechanisms such as decoupling are baked in. And the other point that I make in my testimony is that analyses of the effect of decoupling on the cost of equity have not shown any -- any effects.

So I myself have studied the market reaction to news of decoupling, and if the investors were really discounting future cash flows at a lower cost of capital, then the news of decoupling would cause the stock to go up. And we don't see that when we -- when we --

Q. Okay.

A. -- set up event studies that isolate the -- the news and the effects on stock prices.

Q. Just a couple of questions and then I'll finish on decoupling and the actual impact of a rate plan.

So let's turn to KGS -- what is this -- KGS-18, your exhibit where you -- Mr. Parcell referred to something in your rebuttal testimony where you did a comparison. I'm going to go to the analysis in your direct testimony. And in here, you look at the various types of adjustment causes.

So are you there?

A. Yes, I'm with you.

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU276

Q. So on Avista -- let's just go down to Avista. Are you familiar with the design of their decoupling program? I -- you have it marked here as full decoupling.

A. Yes. That's how it was summarized by Regulatory Research Associates.

Q. Are you familiar with how it's structured with a rate cap in earnings? Are you familiar with earnings sharing mechanisms?

A. Yes.

Q. Okay.

A. The asymmetric one that accompanies this decoupling mechanism.

Q. Right.

A. There are also symmetric ones in place in other states.

Q. And by the way, while we're on Avista, I'm just a little curious, Mr. Strunk, why you have a dash or a no checkmark on Avista for Conservation Program Expense. It's my understanding that we fully compensate them through the tariff for any conservation expenses, and you have it blank.

A. The -- the data that I've presented here is sourced from a Regulatory Research Associates --

Q. Oh, from RRA?

A. -- report.

Yes. And that is how RRA characterized it.

Q. Okay. Um-hmm. Go back to -- that's a separate discussion.

So are you familiar at all -- so I understand all these checkmarks, and it's -- it sounds like you and Mr. Parcell disagree on what is full and partial decoupling, on his proxy group at least.

Mr. Parcell, have you had a chance to look at his proxy group to see if his characterization of full and partial decoupling is accurate?

A. (By Mr. Parcell) We've used the same -- I mean, he -- I did an analysis myself, of my own proxy group myself just compared to the one he did on his rebuttal, and I got the same results. So I presume he's recorded information properly from the source. I don't dispute that.

Q. Okay.

A. I didn't check them one-by-one, but I give him credit for doing that right.

Q. I guess my final question to you, Mr. Strunk, is, okay, this chart is fine in KGS-18, but have you actually -- have you taken it to the next step and actually analyzed what the actual effects of decoupling are in both a subsequent rate year, the creation of a

deferral account if a rate cap is hit?

Have you looked at things like that to see how it actually works in practice at a Commission like ours?

A. (By Mr. Strunk) Well, I've certainly reviewed the proposal that's on the table in this docket. And I recognize that there are deferrals, there are talks of potential thresholds that have to be made to --

Q. Right.

A. -- to --

Q. No, that's not my question.

But my question is, for specifically Avista and Puget, we've authorized full electric and gas decoupling. We've had rate cases, we've had reports to the Commission.

And you made one, subject to check, but for Avista, in the last rate case, they actually earned in the second year of a rate plan -- this is more of a rate plan issue than decoupling -- but they earned 30 to 40 basis points over their authorized ROE.

Last week we had an open meeting at the Commission in a docket with PSE, and PSE is building up significant deferrals, especially on the gas side -- on both sides -- so they're over-earning, excessive earnings on both gas and electric, and they're building up a deferral on both sides of the operation.

So I just wanted to know if you were aware of that, if you're aware of the actual operation in other states as well, that you cite in KGS-18.

A. Well, my area of focus has really been on how investors value decoupling and whether there's any effect on the cost of equity.

I would agree with what the Commission found in the Puget remand case, that it's very difficult to sort of do a -- what is ultimately a subjective assessment of how the different risk mitigators affect the rate of return.

The factual circumstances that you've cited are ones that are the product of a confluence of events that, you know, it could certainly go the other way. And there's no protection for company investors under the Washington decoupling mechanisms for actual returns that fall below the authorized rate of return, and there is protection for customers, and sharing above that rate.

So no, I haven't examined everything that has happened in each of the states. I know that other states do have deferrals, but I can't -- I can say I've studied the equity markets and I've studied how the equity markets respond to decoupling, and there's really no --

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU280

Q. Okay.

A. -- evidence that decoupling changes the cost of equity.

Q. I understand that. And -- and to be fair, I didn't mean to put you on the spot too much, but weather -- as you can imagine, on the gas side, a warmer than normal weather has a lot to do with under-earning or perhaps not collecting as much revenue on certain things.

Now, Mr. Parcell, before we end up here, I have one final question.

Do you have any comments on what I just asked Mr. Strunk?

A. (By Mr. Parcell) Um, I sort of approach it the same way he does it, from the standpoint of, are these mechanisms useful to utilities.

And in fact, on January the 29th, 2014, Moody's raised the long-term credit rating of virtually every gas and electric utility in this country, primarily because of the various suite of regulatory mechanisms available to them.

That's a real -- never in the history of regulation have I heard of any agency changing the whole industry in one fell swoop up. So obviously Standard and Poor's and the rating agency saw the benefits of

these various mechanisms.

And just to make sure that we're on the same page here, if every one of my proxy group companies had decoupling, then the mid-point of the range represents their cost of capital, and that's what I'm recommending.

Q. Which is 9.25 percent?

A. That's right.

Q. Okay. So my final question and then I'm done is, of the various methodologies each of you use, which should the Commission put more weight on? I've asked you this before. I think you probably saw this coming.

Should we put generally more weight, as we have done in the past, on DCF? Or both of you seem to be saying we should not put that much weight on CAPM, and then put it on comparable earnings, and for you, Mr. Strunk, on ROE.

So why don't we start with you, Mr. Parcell.

A. I think historically, DCF has been the most widely-utilized method. The DCF results the last year or so have been a little lower than other -- than, say comparable earnings, and that's why I only focus on the top end of my DCF results. I don't use any of the medians, just -- the averages. Just the top end is what I focus on to account for that.

The comparable earnings is not as quick to

change results-wise compared to the -- compared to the other methodologies. So I think that's a good foundation, if you will. That's why I like comparable earnings. Mr. Strunk and I are two of the few people that use comparable earnings.

Q. And CAPM, don't give them much weight in this case?

A. Not now -- for a long time, I would get my highest results from CAPM. But the impact of the Fed on interest rates and the resulting premiums over the last few years causes me to give fewer -- less weight to CAPM at this time. And at my age, I'll probably never get -- we don't use it much, because it's -- at my age, I probably never will, because it's not going to come back any time soon, and I'm going away soon.

Q. Mr. Parcell, we could have another OPEC oil embargo, oil could go shooting out of the Bronx and the rate could go up to eight percent again.

A. It could, but don't bet the farm on it. But it could.

Q. So CAPM might be used --

A. I'm hanging on the wind with it. I'm giving it a shot.

Q. Okay. Mr. Strunk?

A. (By Mr. Strunk) Well, let me preface the

response with the -- if the Commission were adjudicating an ROE result, if the Company were asking for a change in the recommendation, then I believe that it would be useful to look at all models with the recognition that the 15 trillion in central market -- central bank market interventions has had major effects on the capital markets. And that the -- even the Bank of Japan has become a top-ten holder of ninety percent of the equity shares that are traded in the Nikkei 225. So we're -- we're dealing with a very different market.

But I think, taking that into consideration, you can look at all of the models and give less weight to those that appear to be most affected by the anomalous conditions. But the Company hasn't asked for a fully-adjudicated cost of capital result. They've asked to keep the --

Q. Right.

A. -- the same cost of capital.

And the evidence that Dr. -- that Mr. Parcell and myself put before you would tend to confirm that that's a reasonable request in light of what's happened since the last two rate cases.

COMMISSIONER JONES: Thank you both. I'm done.

MR. PARCELL: Thank you.

EXAMINATION BY COMMISSIONER JONES / PARCELL / STRU284

MR. STRUNK: Thank you.

JUDGE FRIEDLANDER: Thank you.

CHAIRMAN DANNER: I have no questions.

JUDGE FRIEDLANDER: Okay. Thank you. All right. Unless anybody has anything else for you, I believe you both are -- you're excused. And thank you very much for your testimony.

MR. PARCELL: Thank you.

MR. STRUNK: Thank you.

JUDGE FRIEDLANDER: I believe Mr. Vail is the next on our cross list.

MS. MCDOWELL: That's correct, your Honor.

JUDGE FRIEDLANDER: Thank you.

All right. Mr. Vail, if you'll raise your right hand.

RICHARD A. VAIL, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

Ms. McDowell?

MR. LOWNEY: This is Adam Lowney on behalf

EXAMINATION BY MR. LOWNEY / VAIL

of Pacific Power.

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY MR. LOWNEY ***

BY MR. LOWNEY:

Q. Mr. Vail, could you please state and spell your name for the record?

A. Yes. It's Rick Vail, that's V-A-I-L.

Q. And how are you employed, Mr. Vail?

A. I am the vice president of transmission at PacifiCorp.

Q. And in that capacity, have you filed testimony in this case, which is labeled Exhibit No. RAV-1T through 3T?

A. Yes, I have.

Q. And do you have any corrections to your testimony today?

A. I do not.

Q. And if I were to ask you the same questions that is [sic] reflected in that testimony, would your answers be the same?

A. Yes, they would.

MR. LOWNEY: Mr. Vail is available for cross-examination.

JUDGE FRIEDLANDER: Thank you.

Ms. Cameron-Rulkowski?

EXAMINATION BY MS. CAMERON-RULKOWSKI / VAIL

MS. CAMERON-RULKOWSKI: Thank you, your Honor.

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

BY MS. CAMERON-RULKOWSKI:

Q. Good afternoon, Mr. Vail.

A. Good afternoon.

Q. I'd like to ask you to refer to your rebuttal testimony, and this is RAV-3T, page 5. And I'm looking at lines 5 through 6 in particular.

A. Okay. I'm there.

Q. Here you're discussing the ownership of the Jim Bridger-Goshen line.

Is that how you pronounce that, by the way?

A. That's correct, yeah.

Q. Thank you. And there on lines 5 to 6, you refer to certain outage conditions.

A. Yes, I do.

Q. What are those outage conditions?

A. It can actually be a number of different lines. One of the probably best things to look at would be the map that I provided in my direct testimony. It's Exhibit No. RAV-2. I'm looking at page 2 of 2.

Q. All right. I'm with you.

A. Okay. So prior to the asset exchange, PacifiCorp had ownership of the Bridger to Populus to

Borah and Brady, and you can kind of see there are two green lines there. Those are two 345 kV transmission lines.

Prior to the asset exchange --

CHAIRMAN DANNER: Excuse me. Since we don't have color on our --

THE WITNESS: Oh, I apologize.

CHAIRMAN DANNER: -- copies, you might have to go a little slower while we track.

THE WITNESS: Okay. I will do that. So let's just orient ourselves here just a little bit.

The Jim Bridger plant is in Wyoming, and in this case, I'm looking at kind of the middle of the right-hand side of the page. And so what I'm doing is going from Jim Bridger plant and basically going from East to West. So how do we get from basically Wyoming over to Washington customers?

So in this case, prior to the asset exchange, PacifiCorp owned the Bridger to Populus -- you can see there's two lines there -- and then also ownership from Populus over to the Borah substation. After the asset exchange, PacifiCorp now has the ability to and has ownership on all three of those lines.

So in the past, any outage of either the -- either one of those Bridger to Populus to Borah lines

would have created a situation where PacifiCorp could not get all of the generation it owned out of the Jim Bridger plant out to the West.

BY MS. CAMERON-RULKOWSKI:

Q. So what did the Company actually -- well, have those two lines ever gone down?

A. Yes, they certainly have. And you know, one thing with the transmission lines to kind of keep in mind, the idea is to make sure that you're reliably serving customers. And even if there's an outage on one line, you still want to make sure that when people flip the switch on, so to speak, that their power does come on. So yes, we have had outages on those lines in the past.

And it's important to note, they're hundreds of miles long. Some of them are out in, you know, basically the middle of nowhere. Wyoming is the least populous state in the country, and we do have issues with hunters shooting out insulators, but also weather. Wyoming does have some pretty extreme winds that can cause outages on those lines.

Q. So have both of them ever gone down?

A. Yes, there have been times when both of those facilities have been down at the same time. And again -- I guess I would just step back.

Even with one of those lines down, PacifiCorp did not have the ability to take all of the Jim Bridger output that it has ownership of and bring it across to the West. So there would be times where there would be limitations on the outage of the Jim Bridger plant and being able to move it to the West.

Q. So what did the Company do, then, before they had the ownership interest in that third line?

A. Um, well, so they -- you know, the Company's responsibility, obviously, is to serve its customers, and there are other things that the Company can do. One is go out on the market and purchase additional power over in the West. One would be to -- another option would be to go and try to find additional transmission rights or capacity from another area in order to serve the load out West. So there's a variety of options that the Company, you know, has an opportunity to resupply that power.

MS. CAMERON-RULKOWSKI: Thank you. I have no further questions for Mr. Vail.

JUDGE FRIEDLANDER: Thank you. Any rebuttal?

MR. LOWNEY: No redirect, your Honor.

JUDGE FRIEDLANDER: Okay. Thank you. Commissioner questions?

EXAMINATION BY MS. RACKNER / MCCOY

CHAIRMAN DANNER: No questions.

JUDGE FRIEDLANDER: Thank you, Mr. Vail. You're excused.

And I believe we're up to Ms. McCoy.

MS. RACKNER: That's correct, your Honor.

JUDGE FRIEDLANDER: Thank you.

Please raise your right hand.

SHELLEY MCCOY, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated. Ms. McDowell?

MS. RACKNER: Good afternoon, commissioners and ALJ Friedlander. This is Lisa Rackner from Pacific Power.

*** EXAMINATION BY MS. RACKNER ***

BY MS. RACKNER:

Q. Good morning, Ms. McCoy -- or excuse me, good afternoon.

A. Good afternoon.

Q. Could you please state and spell your name for the record?

EXAMINATION BY MS. RACKNER / MCCOY

A. Sure. Shelley, S-H-E-L-L-E-Y, McCoy, M-C-C-O-Y.

Q. And how are you employed?

A. I'm the manager of revenue requirement at PacifiCorp.

Q. And in that capacity, did you file testimony in this case?

A. Yes, I did.

Q. And is that testimony and the attached exhibits labeled as SEM-1 through 12?

A. That is correct.

Q. Do you have any corrections to that testimony or exhibits?

A. I do. I have one correction.

In my rebuttal testimony on page 24, lines 15 and 16, so on line 15, where it says "Schedule 96," that should say "Schedule 95."

JUDGE FRIEDLANDER: And I'm sorry. Which page, 24?

THE WITNESS: Page 24 of my rebuttal, yes. And on line 16, that should say "Energy Adjustment Revenue tariff schedule," so adding the word "Adjustment" between "Energy" and "Revenue."

BY MS. RACKNER:

Q. Thank you. And do you have any other corrections to your testimony?

A. I do not.

Q. So with those corrections, if I asked you the same questions today, would your answers be the same?

A. Yes, they would.

MS. RACKNER: Thank you. Ms. McCoy is available for cross-examination.

JUDGE FRIEDLANDER: Thank you.

Ms. Cameron-Rulkowski?

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

BY MS. CAMERON-RULKOWSKI:

Q. Thank you. Good afternoon, Ms. McCoy.

A. Good afternoon.

Q. First a question about the Idaho Asset Exchange. Please refer to your testimony -- your direct testimony at SEM-1T, page 11.

A. Okay. I'm there.

Q. And in Table 1 there, under Location Description --

A. Yes.

Q. -- you list Goshen Substation and Maintenance Shop?

A. Correct.

Q. Did the Company own this asset before the Idaho Asset Exchange?

A. Yes, they did.

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

Q. Thank you. Now I'm going to move on to some questions about Staff's memberships and subscriptions adjustment.

A. Okay.

Q. Please refer to your rebuttal testimony, starting on page 12.

A. Okay. I'm there.

Q. Now, you discussed three organizations associated with this adjustment, and that's the Utah Taxpayers Association, the Wyoming Taxpayers Association and the Yakima County Development Association; is that right?

A. That's correct.

Q. All right. So starting with the taxpayer associations, you accept Staff's removal of the expenses associated with the taxpayer associations, right?

A. We did, including the Wyoming one, even though we do have WCA assets located in that state.

Q. All right. Now, you stated that you accepted the removal of the expenses only for the purpose of -- for the purposes of this proceeding; is that correct?

A. That is correct.

Q. All right. And I'm now going to refer you to a cross-exhibit.

Are you there?

A. Yes.

Q. I'm sorry. This was SEM-15CX?

A. Yes.

Q. And I'm looking at the response from the Company, starting with the text, Line 241, would you please read that first sentence?

A. Sure. "The Utah Taxpayers Association strives to prevent ill-conceived or unnecessary tax proposals and encourages tax relief."

Q. Now, who is it that provides tax relief?

A. I'm sorry. I'm not quite understanding your question.

Q. Sure. Isn't it usually a body of elected officials, for example, that grants tax relief?

A. I suppose that would be true, yes.

Q. And so would you agree that a State legislature, a City or County Council or the US congress are all examples of such bodies that can grant tax relief?

A. Yes.

Q. And so striving to prevent ill-conceived or unnecessary tax proposals and encouraging tax relief would be encouraging members of these elected bodies to support or oppose tax proposals, correct?

A. Possibly, yes.

Q. How else beyond encouraging members of these

elected bodies could the organization try to -- try to encourage tax relief or prevent tax proposals?

MS. RACKNER: I'm going to object. The question is compound and I'm having difficulty following the question.

MS. CAMERON-RULKOWSKI: I'll attempt to rephrase.

BY MS. CAMERON-RULKOWSKI:

Q. So you've accepted that striving to prevent ill-conceived or unnecessary tax proposals and encouraging tax relief means encouraging members of these elected bodies to support or oppose tax proposals, right?

A. I'm sorry. I'm still not quite understanding.

Is your question getting to the basis of why we agreed with Staff to remove these?

Q. No, it isn't. It's getting to -- it's getting to what the purpose is of these associations. So --

MS. RACKNER: I'm going to object on the basis of relevance. Just to be clear, in response to Staff testimony, the Company agreed to remove the costs associated with these adjustments from the rate case. It's not clear to me whether Staff -- whether Staff acknowledges that fact.

MS. CAMERON-RULKOWSKI: Staff does. I

hadn't actually asked a question at that point, but there's a conditional acceptance here, which is for the purposes of this proceeding, and that's what I'm addressing.

And ultimately, the Commission will make its decisions about whether -- about these expenses, and I'm making a record.

CHAIRMAN DANNER: So just to clarify, is this -- you're making a record for another proceeding?

MS. CAMERON-RULKOWSKI: No, no, Mr. Chairman. I am making a record concerning the Company's conditional acceptance, which is -- the conditional language is "for the purposes of this proceeding." And so what I'm trying to get at is, is the ultimate propriety of these expenses.

CHAIRMAN DANNER: Okay. But --

MS. CAMERON-RULKOWSKI: I can move on.

CHAIRMAN DANNER: Yeah. I mean, because my understanding is, the condition is, is they're not going to deal with it in this proceeding. And so if they come back in another proceeding, we'll have the record in that case working where it can be challenged again if that's what Staff wants to do.

MS. CAMERON-RULKOWSKI: No. We would prefer to get it taken care of in this proceeding.

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

CHAIRMAN DANNER: All right. You're the judge.

JUDGE FRIEDLANDER: I'm going to agree on the objection, and we'll just move on from here since it's not really relevant in this proceeding.

MS. CAMERON-RULKOWSKI: All right.

JUDGE FRIEDLANDER: Thank you.

BY MS. CAMERON-RULKOWSKI:

Q. So then going onto the next -- the next paragraph in the response, which is Line 271, and this is a description of the Wyoming Taxpayers Association, and it states there that the "Association promotes efficient and effective government through independent and unbiased analysis of public expenditures and taxation policies, coupled with wide dissemination of these analyses."

And my question is, who receives these analyses?

MS. RACKNER: And I would make the same objection. The Company, I believe, accepted adjustments with respect to both sets of costs, both for the Utah Taxpayers Association and the Wyoming Taxpayers Association.

JUDGE FRIEDLANDER: Ms. Cameron-Rulkowski, do you have a response?

MS. CAMERON-RULKOWSKI: It's the same

response, your Honor, and so I'll just let the cat out of the bag here, which is, it looks -- what I'm getting at is, are these expenses lobbying expenses? And why don't I just ask it straight out.

BY MS. CAMERON-RULKOWSKI:

Q. Ms. McCoy, are these expenses essentially lobbying expenses?

MS. RACKNER: Same objection. The costs are withdrawn from the case.

JUDGE FRIEDLANDER: And so I think they're not an issue -- they're not a contested issue anymore. Doesn't mean you can't raise it in another proceeding where they become a contested issue, but for this, I'm going to have to sustain the objection.

MS. CAMERON-RULKOWSKI: All right.

JUDGE FRIEDLANDER: Thank you.

BY MS. CAMERON-RULKOWSKI:

Q. Then I will move on to the costs that the -- that we still do have a dispute about, which is the Yakima County Development Association expenses.

A. Okay.

Q. Ms. McCoy, do you have a copy of Ms. Van Meter's testimony with you?

A. Yes, I do.

Q. All right. Please refer to her testimony at

EXAMINATION BY MS. CAMERON-RULKOWSKI / MCCOY

page 4, starting at line 16.

MS. RACKNER: Excuse me. I had to get up to get it. Would you mind repeating the question?

MS. CAMERON-RULKOWSKI: Certainly. It's page 4 of Ms. Van Meter's testimony, and that's TMV-1T.

MS. RACKNER: Thank you.

MS. CAMERON-RULKOWSKI: And starts at line 16.

THE WITNESS: Okay. I'm there.

BY MS. CAMERON-RULKOWSKI:

Q. All right. Now, the Company's discovery response quoted there states that this $7,500 amount is for a pledge, correct?

A. Correct.

Q. All right. And please go down to line 20.

A. Okay.

Q. And in the discovery response quoted there, the $4,500 amount is for a challenge grant, correct?

A. Correct.

Q. The pledge -- now, do the pledge and the challenge grant help the Company provide prompt, expeditious and efficient electric service?

A. I would say it -- where -- not directly, but indirectly, the money that the Company has paid to this organization promotes the efficient use of the electric

system, thereby benefitting the customers through that efficient use of the system.

Q. And could you elaborate on that, please?

A. Certainly. As the Company described in the -- there was -- the data request that Ms. Van Meter submitted to us, we explained that the support of these organizations like the Yakima Development Commission, it helps -- where it helps a new customer site locations within the Company's service territory, then that promotes more efficient use of the existing system and thereby lowers the overall cost on a per customer basis.

Q. And as you've stated, that's an indirect effect, correct?

A. Correct.

MS. CAMERON-RULKOWSKI: Thank you. I have no further questions for Ms. McCoy.

JUDGE FRIEDLANDER: Thank you.

Mr. ffitch, I believe you're up.

MR. FFITCH: Thank you, your Honor. We've advised counsel for the Company that we have, in the event, no questions for Ms. McCoy given that the cross-exhibits are stipulated in.

JUDGE FRIEDLANDER: Thank you. And I believe that leaves you, Mr. Cowell.

MR. COWELL: Yes. Thank you, your Honor.

EXAMINATION BY MR. COWELL / MCCOY

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. Good afternoon, Ms. McCoy.

A. Good afternoon.

Q. So Ms. McCoy, if we could start off with Exhibit No. SEM-13CX, and page 1 of that exhibit, which is Boise Data Request 115.

COMMISSIONER RENDAHL: I'm sorry. Can you repeat that? I'm still shuffling pages.

BY MR. COWELL:

Q. It's Exhibit No. SEM-13CX, and then starting with page 1.

A. Okay. I'm there.

Q. Okay. So near the bottom of that request, Ms. McCoy, your testimony -- your rebuttal testimony's quoted that you testified that the Company's filing is comprised of adjustments, incorporating discrete and identifiable cost increases over the next two years; is that correct?

A. That is correct.

Q. Now, when the Company was asked about this testimony, you prepared this data response, correct?

A. Correct.

Q. Which states that the Company's testimony referring to identifiable cost increases is merely a

summary reference to the net result of offsetting changes impacting revenue requirements; is that accurate?

A. Yes.

Q. So Ms. McCoy, do you think that there's any inconsistency or discord between those two responses? And specifically -- I mean alternately describing the same cost increase adjustments as discrete and identifiable, and then merely a summary reference to a net result of offsetting changes?

A. Well, I think if you look at the case in total, we start with a test period that includes both cost increases and decreases, and then we made pro forma -- discrete pro forma increases.

And upon rebuttal, we accepted Public Counsel's FTE reduction, in addition to our proposed wage increase that corresponds with that time period. So I'd say that we have both increases and decreases included in there.

Q. In terms of the Company's direct case, initial case --

A. Yes.

Q. -- were offsets included in that, or was it just the discrete --

A. In the --

Q. -- increases?

EXAMINATION BY MR. COWELL / MCCOY

A. In the base period, there are increases and decreases both.

Q. So -- and also offsets?

A. I'm not sure what you mean by an offset.

Q. Well, as you -- this response testifies to a summary reference to the net result of offsetting changes. So that's what I'm getting at, so the direct case included offsetting changes.

A. Well, I would guess I would say we have, for instance, some costs that have gone up, some costs that have gone down, and our base period has both those increases and decreases. And to the extent that they offset, then, yes, offsets would be included.

Q. Okay. If we could turn to page 2 of that exhibit, so Boise Data Request 119.

The Company was asked to refer to your rebuttal testimony, SEM-6T at 4, 19 through 23. And there you had explained that Colstrip 3 O&M costs should be removed as it is more consistent with a WCA, correct?

A. That is what I stated, yes.

Q. Then previously in rebuttal -- and it might be helpful if we actually looked there -- page 4 of your rebuttal testimony, SEM-6T.

A. Okay. I'm there.

Q. Okay. So lines 20 and 21, you explain that the

EXAMINATION BY MR. COWELL / MCCOY

Company had prepared its Colstrip 3 adjustment consistent with the methodology used in previous cases, correct?

A. That is correct.

Q. So again, in Boise Data Request 119, the Company was asked to confirm that it previously used a methodology for O&M costs -- in this case, Colstrip 3 O&M costs -- that upon further review PacifiCorp now agrees to be less consistent with the WCA than an adjustment proposed by Boise; is that correct?

A. It's correct, but in actuality, the inclusion of the Colstrip 3 O&M costs was inconsistent with the treatment of Colstrip 3 plant in that it is not included in rates and, therefore, we agreed, when Boise raised this issue, that we should not include the associated O&M costs either, and we removed them.

Q. But specifically, I wanted to look at this response to 119 that you didn't confirm the request that -- which was stated that, "Please confirm the Company used a methodology less consistent."

So that's still your testimony?

A. Yes.

Q. In terms of the actual Colstrip 3 O&M adjustment that the Company agrees to, is that amount different than what was proposed by Boise?

EXAMINATION BY MR. COWELL / MCCOY

A. It is.

Q. Could you walk me through maybe the differences?

A. Well, the primary difference is that there were some costs that Boise did not include, and so when we looked at it, we looked at the full range of O&M costs for Colstrip 3 and made sure that we incorporated all of them. There were some FERC accounts that had been left out of Boise's analysis, so we were trying to be complete and make sure that we had captured all of them.

Q. And your adjustment was larger, then, than Boise's?

A. I would have to check that to verify.

Q. Maybe if we could just quickly -- let's see. In your rebuttal testimony, page 3, I believe, and in Table 1 --

A. Yes.

Q. -- is that Adjustment 5.3, EIM Costs Removal?

A. No, I believe you're talking about 5.2, Colstrip 3 Removal.

Q. Oh, excuse me. Sorry. 5.2.

So for the record, we're speaking of Table 1, SEM-6T, page 3, and Adjustment 5.2.

So your adjustment is -- let's see -- Revenue Requirement Impact, negative 829,873?

A. Correct.

EXAMINATION BY MR. COWELL / MCCOY

Q. And then do you have Mr. Mullins' testimony with you?

A. I do.

Q. And if you could please turn to BGM-11 Revised.

JUDGE FRIEDLANDER: Maybe you can wait for all of us to get on the same page.

MR. COWELL: Oh, certainly, your Honor.

COMMISSIONER JONES: What is it again, Mr. Cowell? I'm catching up.

BY MR. COWELL:

Q. And then BGM-11 Revised, which is actually in response to Bench Request No. 5. It's the most up-to-date figures.

A. I'm sorry. I don't have that version with me.

Q. I believe it's actually the same figure. We could look at Mr. Mullins' cross-answering testimony, BGM-10T.

A. Okay.

Q. And that would be page 2.

A. Oh, as a matter of fact, I do have -- well, I have BGM-11.

Q. Either one. We can -- I'm just looking for you to compare and contrast Mr. Mullins' total with your own and just explain, please, the difference.

MS. RACKNER: Just for clarity, which of the

two exhibits is the witness looking at right now?

THE WITNESS: I'm looking at BGM-11.

MS. RACKNER: Thank you.

THE WITNESS: So without the specific numbers in front of me to compare the calculation, I would -- I believe that Mr. Mullins was inconsistent in his testimony where, in one place he said to use the net plant percentage allocation between the units, and then it's possible that he used the gross plant percentage allocation in his actual calculation.

BY MR. COWELL:

Q. And you think those two issues account for the difference? Excuse me. That one issue is the difference?

A. Yes.

Q. Lastly, Ms. McCoy, you were here when I had asked Mr. Dalley about the impact of updating the rate period in the Company's rebuttal request?

A. Yes, I was.

Q. Okay. Would you be able to provide an answer to the question I had asked him of what the impact is, just isolating the rate period difference?

A. To some extent. I can answer the question as it relates to the production tax credits.

Q. Okay.

EXAMINATION BY CHAIRMAN DANNER / MCCOY

A. So turning back to my rebuttal testimony on page 3, in Table 1, Adjustment 7.3, the revenue requirement change increased by approximately $250,000 on the production tax credits, and that's related to moving the effective date from May 1st to July 1st to reflect the, you know, longer time period of expired credits.

And then in year 2, it's Adjustment No. 4 on Table 2, and that amount is approximately $615,000, an increase by moving out the effective date from May 1st of 2017 to July 1st of 2017, again reflecting more expired tax credits in that time period.

MR. COWELL: Thank you, Ms. McCoy. No further questions.

JUDGE FRIEDLANDER: Thank you.

Any redirect?

MS. RACKNER: No, your Honor.

JUDGE FRIEDLANDER: Thank you. Any questions from the bench?

COMMISSIONER JONES: Not for me.

COMMISSIONER RENDAHL: No.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. I do have one question with regard to the Yakima membership. So that had a value, I believe, of 14,000 something.

EXAMINATION BY COMMISSIONER RENDAHL / MCCOY

The benefits to the consumers that you estimated, did you ever try to put a dollar amount on that?

A. No, we did not.

Q. So could you again state for me what those benefits were?

A. By encouraging additional customers to site within our service territory, it promotes a more efficient use of our electric system, thereby reducing the per customer cost of that system.

Q. And has the Company been successful in siting that new customer service?

A. I can't speak to that. I'm sorry.

Q. Okay. So there's no way of knowing right now about whether the benefits actually exceed the amount of membership?

A. Right.

CHAIRMAN DANNER: Okay. Thank you.

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. Actually, I do have a couple questions. And if you are not the right witness for this, then please let me know who is and we'll figure that out.

So my understanding is that the EIM costs,

including depreciation and amortization expenses, will be included in the variable power cost actuals in the annual PCAM true-up filing; is that correct?

A. That is the proposal, yes.

Q. Okay. And is it the Company's intent to make this method of recovery permanent, or to address it in terms of when to recover the EIM costs and reflecting the EIM benefits in the next general rate case? Is this just a temporary solution or is this the permanent solution?

A. That I'm not sure. But in this case, we're attempting to match up the costs and the benefits within the PCAM proceeding.

Q. Okay. And just another question -- and I'm sorry, I don't have a page reference -- but this is related to decoupling. And if you're not the appropriate witness for this, I think it has to do with the calculations, but you can defer this to someone else if you wish.

So the Company has said it would limit its annual decoupling adjustments to three percent, but doesn't indicate three percent of what.

Is that the revenue requirement?

A. I believe that is the case. The specifics on the decoupling mechanism can be addressed by

EXAMINATION BY COMMISSIONER RENDAHL / MCCOY

Ms. Steward.

Q. That's what I thought, but I thought I'd ask you --

A. Yeah.

Q. -- since you know the overall picture of the whole thing.

A. Right.

Q. All right. I will defer other decoupling questions to Ms. Steward. Thanks very much.

A. Okay.

MS. RACKNER: And your Honor, if I may, Mr. Dalley can answer the question with respect to the EIM that was posed by Commissioner Rendahl. So if you would like to recall him, that is fine with us.

JUDGE FRIEDLANDER: Thank you.

COMMISSIONER RENDAHL: I guess I would only say, if his answer is different, then I would have him come forward. If it's the same, then I think we're good.

JUDGE FRIEDLANDER: It looks like he's indicating it's the same. Thank you.

Thank you for your testimony, Ms. McCoy. You're excused.

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: Why don't we take a

ten-minute break and we'll come back at 3:25.

Thank you. We're off the record.

(A break was taken from 3:15 p.m. to 3:32 p.m.)

JUDGE FRIEDLANDER: All right. We'll go back on the record.

So I believe we have Ms. Steward?

MS. MCDOWELL: That's correct. And between witnesses, may I ask whether Mr. Strunk and Mr. Vail may be excused from the hearing at this point?

CHAIRMAN DANNER: Oh, yeah. That was the intent. Sorry.

MS. MCDOWELL: Thank you.

JUDGE FRIEDLANDER: Thank you.

MS. CAMERON-RULKOWSKI: And Mr. Parcell as well?

JUDGE FRIEDLANDER: I think so, yeah.

MS. CAMERON-RULKOWSKI: Thank you.

JOELLE STEWARD, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. Please be

EXAMINATION BY MS. RACKNER / STEWARD

seated.

Ms. McDowell -- oh, Ms. Rackner?

MS. RACKNER: Thank you.

*** EXAMINATION BY MS. RACKNER ***

BY MS. RACKNER:

Q. Ms. Steward, would you please state and spell your name for the record?

A. My name is Joelle Steward. It's J-O-E-L-L-E S-T-E-W-A-R-D.

Q. And how are you employed?

A. I am the director of rates and regulatory affairs for PacifiCorp.

Q. And in that capacity, did you file testimony and exhibits in this docket?

A. Yes.

Q. And were those JRS-1 through 18?

A. Yes.

Q. Do you have any corrections to your testimony or exhibits?

A. I do not.

Q. And if I asked you the questions that are in this testimony today, would your answers be the same?

A. Yes.

MS. RACKNER: Your Honor, Ms. Steward is available for cross-examination.

EXAMINATION BY MR. COWELL / STEWARD

JUDGE FRIEDLANDER: Thank you.

Mr. Cowell?

MR. COWELL: Thank you, your Honor.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. Good afternoon, Ms. Steward.

A. Good afternoon.

Q. So Ms. Steward, you have reviewed the rate design proposal of Mr. Mullins on behalf of Boise applicable to Schedule 48T, correct?

A. Correct.

Q. And if you could turn to Exhibit No. JRS-19CX, page 1, which is Boise Data Request 126.

A. I'm there.

Q. Okay. Now, this recounts that, in your rebuttal testimony, you stated a belief that Boise's proposal -- Boise's rate design proposal ignores differences in cost characteristics for different types of customers because it applies the same rate design to all customer types in Schedule 48T, right?

A. Correct. That's -- yeah, that's what the question is referring to.

Q. Now, you also confirmed in your response that the Company's proposed Schedule 48T rate design is based on applying the class average increase to all billing

charges to provide consistent impacts, right?

A. For the non-dedi -- for the Schedule 48 customers that are on the non-dedicated facilities rates.

Q. So where -- at the very end of your response there, it says, "consistent impacts across all Schedule 48T customers." Just to clarify, that's --

A. Yes.

Q. That refers to --

A. Yes, that refers to all Schedule 48T customers.

Q. All Schedule 48T customers?

A. Yeah.

Q. Okay. Between the rebuttal testimony that we just recited in the request and the response there, do you find any inconsistency?

A. No, I do not.

Q. No. Okay. Let's go onto the next page, which is Boise Data Request 128, page 2.

So first you confirmed a couple statements you made in rebuttal testimony in that response, right?

A. Correct.

Q. Now, you also referred Boise to cost of service studies, quote, for proper context, end quote, in the very next sentence of that response, correct?

A. Correct.

EXAMINATION BY MR. COWELL / STEWARD

Q. And for proper context here, you also prepared a response to Boise Data Request 131, which is skipping ahead a couple -- a few to page 5 of this exhibit, in which the Company confirmed that it did not prepare an updated cost of service study for this case, correct?

A. Correct.

Q. If you could turn back to Data Request 129, which is page 3 of this exhibit.

You take the position that service characteristics of the Company's largest Schedule 48T customer, quote [as read], "justifies separate consideration in the cost of service in pricing models," correct?

A. Correct.

Q. And if you could turn to the next data request, which is page 4 of this exhibit, Boise Data Request 130.

You prepared a response stating that dedicated facilities should receive the same increase as other classes, including other Schedule 48T customers, right?

A. Correct. Schedule 48T dedicated facilities is treated as a separate class in the class of service study.

Q. Now, looking at that first sentence there, but your response was that the Company's position was they should receive the same increase as other classes,

right?

A. Correct, yes.

Q. Now, in this response, you also disagreed with the proposition of the request that it would be fair for dedicated facility customers to receive a different increase relative to other Schedule 48T customers, correct?

A. Could you repeat that?

Q. Sure.

A. I think I got lost.

Q. No. Sure. It's probably helpful just to actually -- as I read here, the first sentence of the request --

A. Of the request?

Q. Yes. Yeah. Right. I'm basically trying to get to confirming your response.

A. You're reading the question or the answer?

Q. Yeah. So in Boise Data Request 130, the actual request, it says, "Does the Company agree that it would be fair for Schedule 48T-Dedicated Facilities customers to receive a different increase relative to other Schedule 48T customers," and your response was "No," correct?

A. Yes.

Q. Okay.

EXAMINATION BY MR. PURDY / STEWARD

A. Yes, that's correct.

Q. Thank you. So again, do you find -- we went over your responses to 129 and 130.

Do you find any inconsistency between those responses?

A. No, I do not.

Q. And finally, Ms. Steward, you confirmed -- if you would turn to the last page of this exhibit, Boise Data Request 132, you confirmed in the response to this request that, according to your testimony, Dedicated Facilities have been under-collecting for demand and customer charges and over-collecting for energy and reactive charges, right?

A. Yes.

MR. COWELL: No further questions, your Honor.

JUDGE FRIEDLANDER: Thank you.

Mr. Purdy?

MR. PURDY: Yes. Thank you.

*** EXAMINATION BY MR. PURDY ***

BY MR. PURDY:

Q. Good afternoon, Ms. Steward.

A. Good afternoon.

MR. PURDY: Thank you to the Company for allowing me to speak with Ms. Steward prior to the

hearing commencing, and I think it will help me cut down on my cross. So I'll move through this as quickly as possible.

BY MR. PURDY:

Q. Ms. Steward, do you recall the three collaboratives that the Energy Project is interested in pursuing with the Company, among others that we discussed previously?

A. Yes.

Q. And do those include low income weatherization assistance, low income bill assistance, and a collaborative for the purpose of obtaining better low income data for the commissioners to assist them in making a number of decisions?

A. Yes.

Q. Okay.

A. Although I thought when you mentioned three that the other one was just a general residential rate design collaborative that Staff had initiated.

Q. Well, there are, I think, several other collaboratives -- rate design, cost of service -- but I think the collaboratives that I outlined will play into the rate design.

For instance, the low income data might help us in determining whether a third residential tier would be

appropriate; is that not true?

A. That is true, yes.

Q. Okay. Thank you.

Now, regarding these collaboratives, what would be the Company's preference as to who would be at the table for a discussion and involvement in this?

A. At a minimum, the Energy Project, Staff, I believe Public Counsel, the Company. What other -- what other interested parties would be willing to participate we'd be open to.

Q. Would it be fair to say all interested stakeholders can have a seat at the table?

A. Yes, I believe so.

Q. Okay. Great. Thank you.

And do you have any idea as to the timeline for these collaboratives?

A. Well, a first meeting has been scheduled for July already to discuss and sort of lay out a process and plan with target deliverables for the first quarter of Jan -- of 2017.

Q. And by "deliverables," could you explain what you mean?

A. A proposal -- two things. Proposals on how to address any changes in the low income weatherization program, and then also any proposals on how to modify

the low income bill assistance program as that comes to the end of its five-year plan in 2017.

Q. And I think you used the word "modify." Would that also include taking a look at the budgeting for bill assistance?

A. Yes.

Q. Among other things?

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

Q. That's great. Thank you.

Regarding these collaboratives, will the Company give its assurance that it will provide adequate data and staffing resources necessary to identifying -- with respect to low income information, identifying the total number of low income customers in the Company's service territory?

A. Correct. And I think as part of those discussions that will be held is, we will look at what data we have available, what data is publicly available, and figure out the best way to put it all together and answer the questions that the Energy Project and the Commission and other stakeholders may have.

Q. Thank you. And similarly, will the Company provide the necessary data and staffing resources necessary to evaluate the energy burden and energy consumption and other impacts of energy bills that low

income households receive?

A. Possibly, but I don't want to close the door to other entities being able to assist with that as well.

Q. Okay. Certainly. Thank you.

And regarding the study itself, I think that there was a -- or I'm sorry -- the attempt to obtain better low income data, at one point in your rebuttal -- and I can find it if you need to, if you need it -- you expressed some hesitation as to having to do another study.

I just want to clear up for the record that you do agree, do you not, for a continued examination of the study of the low income population, or consumption patterns and behavior, but doing it through a collaborative process where all parties involved would put their collective heads together and brainstorm for hopefully a way to obtain better data than we had previously?

A. Well, possibly. But I mean, we do have -- we did a consumption survey. We have data that we can pull from our billing system about residential customers who have sort of self-identified as low income. We can look at the other survey responses.

But I think first we have to assess where are the data gaps we have, after fully examining what data

we currently have available, before saying we need better data that we would have to go out and acquire.

Q. And I assume that you've heard from a number of witnesses over the last few rate cases that the proxy group that we've been using to identify the low income customers and study them is roughly 5.6 percent of the total customer residential population of the Company; is that not true?

A. I cannot confirm that number right now.

Q. Do you recall --

A. I --

Q. Go ahead.

A. You said it earlier today, but I haven't verified that.

Q. Do you recall Mr. Roger Kouchi's testimony from the 2014 rate case, by any chance?

A. I don't recall the data that he presented in that.

Q. Okay. Generally, would you agree that we do not have a complete picture as to the number of low and true low income customers for the purposes of these various programs that the Company actually has?

A. In our service area?

Q. Yes, in your service area.

A. No.

EXAMINATION BY MS. RACKNER / STEWARD

Q. Okay.

MR. PURDY: Excuse me just one second, your Honor. That is it. Thank you very much. I appreciate it.

JUDGE FRIEDLANDER: Thank you.

Any redirect, Ms. Rackner?

MS. RACKNER: Yes, just briefly.

*** EXAMINATION BY MS. RACKNER ***

BY MS. RACKNER:

Q. Ms. Steward, I want to ask you a question about something that Mr. Cowell asked you about with respect to the Boise DR-131, which is a part of Cross-Exhibit 19X.

A. Okay.

Q. And with respect to that DR, Mr. Cowell asked you whether or not the Company had prepared a cost of service study to support its proposal in this case, and you answered that it had not.

And I wanted to ask you why you believe it was appropriate to make the proposal without having first performed a cost of service study.

A. Well, yeah. We didn't perform a new cost of service study for this case. We prepared this case, we tried to keep it to a limited number of issues. I evaluated whether or not the result of the last cost of

service study showed that the customer classes were within a reasonable range of parity and they were.

And my experience with the practice of this Commission has been to look at a reasonable range of parity. Four out of the last five rate cases have resulted in equal percent spread. The last case, there were some slight tweaks. As a result of those tweaks, all classes were again in that reasonable range of parity.

So it was really just a way to limit the issues that would be litigated in this case. It does not mean that the results of our rates -- or our rate spread proposals are not based on cost of service. They are. We just did not update a new cost of service study.

MS. RACKNER: Thank you, Ms. Steward. That's all I have.

JUDGE FRIEDLANDER: Thank you.

Any questions from the bench?

CHAIRMAN DANNER: Yeah.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. Good afternoon, Ms. Steward.

I was -- I saw that the Shawn Collins testimony requested a personal facilitator for the stakeholder collaborative. And in your testimony, you're saying

that that's not -- you don't believe that's necessary.

Has that been resolved, or is that still a point of contention?

A. I don't believe it's a point of contention. We discussed this morning and that was not raised. I think we have a good relationship with the Energy Project and with the agencies in our service area.

Q. So you think that the participants can basically facilitate themselves, and if you need some dispute resolution, that would be available?

A. Then we could seek that through the Commission's processes, yes.

Q. All right. Thank you.

We had our public hearings in Walla Walla and in Yakima, and I can tell you that there were representatives from the CAP agencies, and they were both very strongly in support of this stakeholder process, and so that will be reflected in the public comments.

CHAIRMAN DANNER: Thank you.

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

BY COMMISSIONER RENDAHL:

Q. Good afternoon, Ms. Steward.

A. Good afternoon.

Q. So while you did not have cross-examination

questions about decoupling, you are the decoupling witness, so do you mind answering a few questions about that?

A. Not at all.

Q. Okay. So you heard my question to Ms. McCoy, and so I'm just confirming this with you, that the Company stated that it would limit its decoupling adjustments to three percent, but didn't reference three percent of what.

It is revenue requirement, correct?

A. Yes. And actually, in the tariff that we proposed itself, which is in JRS-16, we actually specify how that would be done.

And so it's a three percent limitation would be calculated based on the total normalized revenues for the 12-month period ending June 30 each year. So it's not the revenue requirement that comes out of this case; it's sort of a moving target in order to keep it to be a more real three percent.

Q. Thank you. That's very helpful.

And further, on the Company's commitment to file quarterly reports with the Commission and to evaluate the effectiveness of the decoupling mechanism, is there an expectation that these quarterly reports would, in a sense, as a cumulative effect, end up with a third-party

evaluation? They'd be part of that process or be part of the history of that?

A. Yes, they would be available to that third-party evaluator.

Q. Okay. And will those reports be filed in this docket, or have you had discussions with Staff at all about whether there's a new docket for this?

A. We have not had discussions. I think we're open to whatever process the Commission or Commission Staff want on that.

Q. Okay. And then on the issue of the power cost adjustment mechanisms, so the Company is proposing to track and recover only non-power-related costs through the decoupling mechanism, correct?

A. Yes.

Q. And you're familiar with Avista's and Puget Sound Energy's proposals?

A. Their decoupling proposals?

Q. Yes.

A. Yes. Or mechanisms.

Q. So Avista's mechanism includes all fixed costs, including production costs, correct?

A. Yes.

Q. Okay. And in August of last year, we modified Puget Sound Energy's power costs and decoupling to move

production -- fixed production costs from the P-C-A-M, PCAM, into its decoupling mechanism, so it looks like there's a trend here.

Is there -- so the proposal for fixed production costs in PacifiCorp's, they're deferred into the PCAM, correct, in PacifiCorp's proposal, fixed production costs?

A. Not exactly. So net power costs, all the variable fuel costs that go through the PCAM, those are in the PCAM. We remove those costs for the decoupling. So it's -- everything else is essentially in the decoupling mechanism. So I'm not sure what you mean by "fixed production costs."

Q. I guess I'm asking whether, is there an intent to -- so you have the decoupling proposal for this proceeding. Is there interest in ensuring that all of the mechanisms across the three utilities operate consistently in the future? Or is there a reason why PacifiCorp should be different related to power costs and PCAM and decoupling?

A. I thought we were actually quite similar in our approach. I don't have -- you know, I certainly didn't try to -- they're very similar approaches. I don't know that everything has to be cookie cutter across all three utilities.

EXAMINATION BY COMMISSIONER RENDAHL / STEWARD

I made a couple refinements to decoupling mechanisms I saw on the other two utilities that I thought worked better for us. So I can't speak to if we have an interest in all three marching forward together, but I think there is consistency generally across the three.

COMMISSIONER RENDAHL: Okay. Well, thank you. That's all I have. I don't know if my colleagues have other questions.

COMMISSIONER JONES: No questions.

CHAIRMAN DANNER: Good.

JUDGE FRIEDLANDER: Okay. Thank you.

Thank you, Ms. Steward. You're excused.

THE WITNESS: Thanks.

JUDGE FRIEDLANDER: And I believe that concludes the Utility's witnesses?

MS. MCDOWELL: Your Honor, it does include -- that does conclude our case.

With respect to one of the witnesses who was not called for questioning today either by the parties or the Commission, Ms. Hymas, we have one change to her pre-filed testimony. I could either read it into the record now, or we could file an errata, however you want to handle that.

JUDGE FRIEDLANDER: I think an errata would

be most efficient.

MS. MCDOWELL: We will do that. Thank you.

JUDGE FRIEDLANDER: And I believe the next witness is Mr. Ball.

JASON BALL, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

Is it going to be Ms. Cameron-Rulkowski?

MS. CAMERON-RULKOWSKI: Yes, your Honor.

JUDGE FRIEDLANDER: Okay.

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

BY MS. CAMERON-RULKOWSKI:

Q. Good afternoon, Mr. Ball.

A. Good afternoon.

Q. Would you please state your full name?

A. Jason Ball.

Q. And where are you employed?

A. Washington State Utilities and Transportation Commission.

Q. And what position do you currently hold with the

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

Commission?

A. I'm a regulatory analyst.

Q. And please direct your attention to Exhibit No. JLB-1T.

Is this the testimony that you prepared in response to Pacific Power's pre-filed direct testimony?

A. It is.

Q. And in the course of your direct testimony, you refer to Exhibit Nos. JLB-2 through JLB-6.

Were these exhibits prepared by you?

A. Yes.

Q. Are there any corrections that you need to make to your testimony or to the exhibits?

A. Yes. I have a correction to JLB-1T, my direct testimony, on page 13.

Beginning on -- please incorporate the changes that were reflected in the errata filed on Friday. Beginning on line 5, the numbers should read 5,330,704, or 1.58 percent.

In Table 2, beginning at line 8, Jim Bridger SCR Rate Plan or Column Rate Plan, Year 1, should read, 1,443,576.

Row General Adjustments Other should read 6,774,280.

CHAIRMAN DANNER: I'm sorry, Mr. Ball.

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

Could you repeat that, please?

THE WITNESS: 6,774,280.

Total Modeled Revenue Requirement Change, the next row, should read 5,330,704.

And the last row, Staff Proposed Rate Change in Rate Plan Year 2, 728,690.

And finally on row 12 -- or excuse me, line 12, it should read, 728,690, or .216 percent.

JUDGE FRIEDLANDER: And --

MS. CAMERON-RULKOWSKI: And we will --

JUDGE FRIEDLANDER: I was just going to say -- you read my mind -- you'll be filing those electronically as well, right?

MS. CAMERON-RULKOWSKI: That's correct.

JUDGE FRIEDLANDER: Thank you.

BY MS. CAMERON-RULKOWSKI:

Q. Now, Mr. Ball, if I asked you the questions in your testimony today, would your answers be the same?

A. They would.

MS. CAMERON-RULKOWSKI: And Mr. Ball is available for cross-examination and for questions from the bench.

JUDGE FRIEDLANDER: Thank you.

Ms. Rackner?

MS. RACKNER: Yes.

EXAMINATION BY MS. RACKNER / BALL

*** EXAMINATION BY MS. RACKNER ***

BY MS. RACKNER:

Q. Good afternoon, Mr. Ball.

A. Good afternoon.

Q. I wanted to start by asking you some questions about Staff's recommendation with respect to the Idaho Power Asset Exchange. And if you don't mind, just to get us all on the same page, I'd like to just review Staff's recommendation.

First, you recommend that the Commission reject the Company's proposal to allocate to the WCA the assets the Company gained in the exchange, correct?

A. Yes. That particular group we refer to as the Exchange Assets.

Q. Okay. And then there's another set of assets that Staff refers to as the Reassignment Assets, and those are the assets that the Company had been -- had owned, but now the Company is proposing to reallocate them to the WCA because the Company believes that they're now available to serve customers on the West side; is that correct?

A. Yes. That particular set of assets refers to assets along the Bridger to Goshen and Goshen to Kinport line.

Q. Okay. And so it's your position that those

should not be allocated to the WCA; is that correct?

A. That's correct.

Q. Okay. And your position is that Staff seriously questions whether the benefits of the transaction are commensurate with the cost; is that correct?

And why don't I direct you to your testimony at page 71, lines 4 through 5.

A. Yes, that's correct.

Q. Okay. So beginning on page 67 of your testimony, starting at line 19 --

A. Yes.

Q. -- you discuss an open meeting memorandum that was filed by Mr. Twitchell for Staff in the docket that the Company filed for approval of Idaho Power Asset Exchange; is that correct?

A. That is correct.

Q. And now, in the approval docket, Staff analyzed the petition that was brought by the Company under the Commission's no-harm standard; is that correct?

A. I believe that's the standard Mr. Twitchell used and I cited in your testimony -- in my testimony, yes.

Q. And in analyzing whether the exchange met the no-harm standards, Staff, in their memo, addressed both the expected costs and the expected benefits of the exchange; is that correct? And let me direct you to

EXAMINATION BY MS. RACKNER / BALL

your Cross-Exhibit No. 7.

A. Okay. Which page?

Q. And -- well, first let me ask you, is that the open meeting memorandum that you referred to in your testimony?

A. Yes.

Q. Okay. And -- well, let me just ask you, with respect to the benefits of the transaction, do you agree with me that those are summarized on pages -- starting at the bottom of page 6 going onto page 7 of the exhibit?

A. Well, I believe the way Mr. Twitchell phrased it is what the transaction would do and what the transaction would not do.

Q. Okay. So let's start with what the transaction would do.

So first of all, Mr. Twitchell concluded that the transaction would increase reliability for the Company's Idaho service territory; is that correct?

A. That is correct.

Q. The transaction would increase the Company's ability to serve loads in the West Balancing Area in certain line outage situations; is that correct?

A. That's correct.

Q. The transaction would improve administrative

efficiency by replacing the legacy agreements with transparent owed-based transactions; is that correct?

A. That's correct.

Q. And would improve the prospects for cost sharing with Idaho Power on future transmission projects and increase Pacific Power's ownership in the transmission lines that it uses to serve the West Balancing Area, thereby reducing the need for wheeling on Idaho Power's lines; is that correct?

A. That's correct.

Q. Okay. And with respect to the costs, I want to direct you to page three of that same memorandum.

And at the very bottom of the page, Staff states that, relying on data responses that were provided by Pacific Power in that docket, Staff would expect a near-term increase in rates of about $575,000; is that correct?

A. That's correct.

Q. So based on those costs and those benefits, Staff did conclude that the no-harm standard had been satisfied, did they not?

A. Yes. But to be clear, this memo and this particular docket were late into the approval of -- approval of the actual exchange, not necessarily approval of the ratemaking treatment associated with it.

EXAMINATION BY MS. RACKNER / BALL

Q. That's correct. But the -- but Staff did look at what the potential or expected costs would be; is that correct?

A. Correct. The potential or expected costs and benefits that were known at the time.

Q. And have you read Mr. Vail's testimony in this case?

A. I have.

Q. And would you agree with me that, generally, that the benefits that are listed in Mr. Twitchell's memorandum are generally the same benefits that the Company discusses in Mr. Vail's testimony?

A. Yes, I would agree with that.

Q. Okay. So I next want to direct your attention to page 73 of your testimony. And starting at line 4 -- excuse me. I'm on the wrong page myself. Okay.

Starting on line 4, you state, "Further, the Company has stated the reason for acquiring the Exchange Assets was not to serve an entity located in the WCA."

Do you see that?

A. Yes, I see that.

Q. And you support that statement with a quote. The quote says, "Following the exchange, PacifiCorp has ownership on the Jim Bridger to Goshen line that facilitates service to the Goshen area load. PacifiCorp

EXAMINATION BY MS. RACKNER / BALL

did not have this ability before the exchange."

Did I read that correctly?

A. Yes.

Q. And you cite, as support for that statement, Pacific Power's response to Staff, Data Request Number 5?

A. 105.

Q. Excuse me, yes. 105.

A. Yes.

Q. Okay. And -- but you didn't offer into evidence that Response 105, did you?

A. I don't believe so, no.

Q. Okay. So I want to direct your attention to your Cross-Exhibit 10CX.

So is that the Data Request 105 that you're quoting in your testimony?

A. Yes, it is.

Q. Okay. And the question that's posed in that DR is as follows: "Regarding the direct testimony of Richard Vail, Exhibit No. RAV-1T, page 8, lines 10 through 13, please explain in detail how the Idaho Power Asset Exchange will enable the Company to more efficiently operate its transmission system."

Did I read that correctly?

A. Yes.

EXAMINATION BY MS. RACKNER / BALL

Q. Okay. The response the Company provides, the first paragraph is the sentence that you quoted in your testimony, but it's the second paragraph that I wanted to call your attention to.

Do you need a moment to get there?

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

Q. Okay. And that second paragraph reads as follows: "In addition, the conversion of PacifiCorp's legacy contract transmission service to Idaho Power tariff service in the Hurricane and La Grande areas provides new flexibility, including the benefits of redirecting service, firm service, and all other benefits of tariff service."

Did I get that right?

A. Yes.

Q. So can you tell me where the Hurricane and La Grande areas are?

Well, let me ask you this: Are they in the WCA?

A. I believe so.

Q. So wouldn't it be a fair summary of this data response that it discusses benefits from the Idaho Power Asset Exchange that would accrue both within and without the WCA?

A. Yes, that's a fair characterization.

Q. Okay. Thank you.

EXAMINATION BY MS. RACKNER / BALL

Okay. I want to take you back to the schematic that you provided on -- I believe it was on page 65 of your testimony. I'll try not to refer to colors knowing that not everybody's got color here.

But first let me just ask you, do you agree that, as a result of the exchange, there are certain assets that are currently included in the WCA that Pacific Power no longer owns?

A. By "currently included," you mean assets that have been previously included as part of rates and were transferred to Idaho Power?

Q. Yes, that's correct.

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

Q. Okay. And I just want to direct your attention to this schematic that shows there's three transmission lines leaving the Jim Bridger generation plant, and it's the bottom two lines that are solid lines that PacifiCorp previously owned 100 percent of; is that correct?

A. That's correct.

Q. And is it your understanding now that PacifiCorp owns a two-third interest in each of those lines?

A. Yes.

Q. And isn't Staff's recommendation that 100 percent of the cost of those lines would continue to

be allocated to the WCA?

A. Effectively, for the time being, yes. But I mean, that's part of the issue with regulatory lag in that, until regulatory treatment is approved, there are going to be items included in rate base that are not technically owned by Pacific Power anymore.

Further, my understanding of the exchange was that it is virtually a like-kind -- in-kind exchanges that have very little gap between the value of the assets.

So to say that the -- to say that there are certain assets included in the WCA that are no longer part of the Pacific Power system is true, but the value of those assets would not necessarily have changed very much.

Q. Well, isn't it true that, in Mr. Twitchell's memorandum, Staff certainly acknowledged at that time that there would be some change to rates based on the exchange?

A. Yes.

Q. Okay. And I'm a little puzzled by your comment about regulatory lag, because we're here in a rate case right now asking that the correct assets that are actually serving Washington customers now as a result of the exchange be properly reflected in the WCA; is that

correct?

A. Correct. I was just referring to that when this exchange was approved and effected, it did not immediately change rate base in Washington.

Q. And is it your understanding that the Company is asking today to update rate base to incorporate the assets that were acquired in the WCA?

A. Yes.

Q. Okay. And it's Staff's recommendation that the Commission refuse to do so; is that correct?

A. For the time being. The basis of that rationale is principally based on the idea that the Company hasn't reflected the full level of benefits and the full level of costs yet. And part of that has to do with the fact that NPC, net power costs, haven't been updated.

And some of this transaction -- some of the effects of this transaction will be realized through net power costs, and some of the benefits of this transaction will be reflected through EEIM.

Without an update to NPC, net power costs, we won't be seeing the full level and full impact this transaction may be having on Washington rates. That's why we recommend holding off to evaluate it until there's a time when we actually have -- can evaluate the full level of benefits and costs.

EXAMINATION BY MS. RACKNER / BALL

I include in here also Staff's additional concerns with this exchange and with the reassignment assets. We support the correction assets, assets which are related to a misallocation, and those do get changed.

We just think that in the -- that until such time as the full level of benefits and costs can be reflected, it would be inappropriate to reflect partial amount of the exchange.

Q. Well, let me direct your attention to your testimony, page 71, line 15, and I think this gets to the point that you're making.

You state that "The Company does not include the benefits associated with flexibility and the resource dispatch and wheeling across the PACW and PACE systems because there is no change in baseline power costs."

Is that -- do I have that right?

A. Yes, that's correct.

Q. And in addition, you say, "Reliability benefits would appear as avoided market purchases, and therefore decreased relative power costs, from dispatch of cheaper Jim Bridger power"; is that correct?

A. That's correct.

Q. And then on line 21, you say, "Further, the benefit of the dynamic overlay in the form of EIM market

transactions has not been included in the power cost baseline up to this point"; is that correct?

A. That is correct.

Q. So would you agree that the benefits of reliability, flexibility and dynamic overlay will show up -- or let's put it this way -- may show up through a decrease to net power costs?

A. Yes. May show up, yes.

Q. And between rate cases, then those benefits would be passed through to customers through the PCAM?

A. They pass through in the form of actuals versus baseline, but they're not reflected in the baseline.

Q. But -- but through the PCAM, customers may well receive the benefits; is that correct?

A. Not necessarily. Again, this is -- we're talking about actuals versus rates. The PCAM compares baseline power cost rates with actuals.

The benefits from this transaction may appear in the actuals, but they're compared against the baseline rate. So if the baseline rate doesn't have them, and those benefits, all else equal, appear, then it hits -- it occurs inside of the deadband when the Company gets to keep the revenue.

Q. And if those benefits would exceed the deadband, would you agree with me that customers would receive the

benefits of the flexibility, the dynamic overlay and reliability that I believe even you contemplate may result from the transaction?

A. All else equal, it would have to exceed the deadband and then it would reach into the sharing bands where the company -- customers would begin sharing 50/50, and then ostensibly into the third band.

Q. And if that were to occur and the Commission accepted your recommendation that the investment in the Idaho Power Asset Exchange not be included in rates, wouldn't there be a mismatch with customers receiving the benefits and -- but without paying for the investment?

A. It would have to become a very, very big benefit to get to that kind of level. I mean, the baseline power costs -- excuse me, the sharing bands are set at a pretty wide gap around net power costs. We're talking millions of dollars' worth of benefits. And if those millions of dollars of benefits were -- were or are going to be realized, I would have expected the Company to propose a change in that power cost baseline in this case, and I do believe there would be serious eyebrows raised if that ever happened.

MS. RACKNER: That's all I have.

JUDGE FRIEDLANDER: Thank you.

EXAMINATION BY MR. COWELL / BALL

Mr. Cowell?

*** EXAMINATION BY MR. COWELL ***

By MR. COWELL:

Q. Good afternoon, Mr. Ball.

A. Good afternoon.

Q. So Mr. Ball, you've testified that the Company's proposed rate plan is a well-designed stay-out period, right?

A. I believe those are the words I used, but could you point me to --

Q. No, I can -- I'm referring actually to page 3 of your testimony, JBL-1T [sic], page 3, lines 11 and 12.

A. Yes, a well-designed stay-out period with discrete adjustments.

Q. Okay. Now, when you consider a stay-out period, what does that term mean to you? What does "stay-out" mean?

A. The stay-out period means that the Company would not be filing a general rate case during that period.

Q. Okay. So you've testified that Staff support for the proposed rate plan is because it may help change or address the trend of continuous Pacific Power rate cases, right, following along with what you just said?

And that, I'm referring to your testimony at page 9, lines 4 through 5, also page 10, lines 13 and

14.

A. Yes, that's -- yes.

Q. So would it be fair to say, then, that Staff supports the proposed rate plan because the stay-out period would reduce rate case, process?

A. That's one of the reasons, yes.

Q. Okay. Mr. Ball, did you review Mr. Dalley's rebuttal testimony?

A. Yes.

Q. And do you recall Mr. Dalley testifying that the Company would determine whether to accept a modified rate plan? You might recall a similar conversation this morning.

A. I recall the conversations this morning. I don't have a copy of Mr. Dalley's testimony, I don't believe. Or maybe I do.

Q. If you do have his testimony --

A. I do.

Q. Okay. His rebuttal testimony, RBD-3T at 20 -- page 20, lines 13 through 14.

A. Yes.

Q. Okay. Now, under circumstances in which the Company no longer agreed to a stay-out period, would Staff continue to support a multi-year rate plan?

A. We will continue to support it, but if the

Company doesn't agree to a stay-out period, there's no rate plan.

A rate plan -- that's one of the -- one of the primary characteristics of a rate plan is that there is an incentive to the Utility, through some form of annual rate increase or something else, and in exchange, the Company agrees to a stay-out period. Without the stay-out period, I don't believe you have a rate plan.

Q. Okay. Now, you've also testified, in what we were just looking at in your testimony in pages 9 and 10, that the Company's proposed use of end-of-period rate base, EOP rate base, may help to change or address Pacific Power's trend of continuous rate cases, correct?

A. Correct.

Q. Now, in supporting the Company's current proposed use of EOP rate base, did you consider the Commission's determination on the Company's proposed use of EOP rate base in the last general rate case, the Company's last general rate case, UE-140762?

A. Yes.

Q. Okay. What's your understanding of the Commission's EOP determination in that case?

A. I believe the Commission did not allow EOP in that case.

Q. Do you recall the basis or any bases?

EXAMINATION BY MR. COWELL / BALL

A. I believe one of the bases was that there was only one party who provided analysis supporting it besides the Company, and that was -- or excuse me. The only party that provided analysis supporting it was the Company, and the analysis was thin.

Q. Now, would it be accurate to say that, in your testimony, that you didn't cite to the Commission's EOP determination in that case?

A. Yes.

Q. So I'd like to move to another issue.

On page 31 of your testimony, lines 14 and 15, is a reference for confirming that Staff supports the Company's decoupling proposal, right?

A. Correct.

Q. And staying on this page, lines 6 and 7, you've characterized the Company's proposed decoupling mechanism as "designed to separate the recovery of costs from the sale of kilowatt hours," correct?

A. Correct.

Q. Now, Mr. Ball, if you turn to page 40 and lines 8 through 10, you've also testified that "the rate design for non-decoupled customers should mirror as closely as possible the effects of decoupling," right?

A. Correct.

Q. So that recommendation would apply to Schedules

47 and 48, which are not included in the Company's decoupling proposal, correct?

A. Correct. But as I say on that line, Staff proposes a cost of service study collaborative that addresses costs of service and rate design. The collaborative would convene either -- or I believe we were hoping the collaborative would convene very shortly after the conclusion of this case; therefore, we would be able to take into account the effects of decoupling if it was approved.

Q. Okay. Let's move on. Last topic, Mr. Ball.

If you could turn to page 48 of your testimony, and referring to lines 24 through 26, you expressed Staff's concern over low income impacts without an analysis that you're looking for; is that correct?

A. Correct.

Q. And if you turn the page to page 49, lines 1 through 4, you testified that, without detailed analysis, it is actually impossible to determine the sufficiency of low income basis in funding, right?

A. That is correct.

Q. So in your opinion, Mr. Ball, do you think it would be appropriate for the Commission not to increase low income funding given that -- given the absence of impact studies or analysis in this proceeding?

EXAMINATION BY MR. COWELL / BALL

A. I believe I've laid out a recommendation that is the good option for the Commission in increasing low income funding to address the lack of detailed analysis. However, if the Commission believes that more or less funding is necessary, I'm pretty sure that's their decision.

Q. Would it be accurate to say that Staff recommends low income funding increase precisely because -- and actually, let's hold back a second.

Page 49, lines 5 through 8. Start over again.

Would it be accurate to say that Staff recommends a low income funding increase precisely because of -- and according to your testimony -- what the Company has shown or, rather, elected not to demonstrate in this proceeding?

A. Yes.

MR. COWELL: Thank you, Mr. Ball.

No further questions, your Honor.

JUDGE FRIEDLANDER: Thank you.

Mr. Purdy?

MR. PURDY: Thank you, your Honor. I should have mentioned this after my cross of Ms. Steward. Given that we reached an agreement that ended well with the cross as far as we're concerned, we don't have a need to cross either Mr. Ball or Ms. Van Meter.

EXAMINATION BY MS. CAMERON-RULKOWSKI / BALL

JUDGE FRIEDLANDER: All right. Thank you.

Is there any redirect by Staff?

MS. CAMERON-RULKOWSKI: Yes, your Honor.

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

BY MS. CAMERON-RULKOWSKI:

Q. Mr. Ball, would you please refer to Exhibit No. JLB-7CX, and please turn to page 3.

Down at the bottom of the page in the section "The rates and risks faced by ratepayers," Mr. Twitchell's memo states that "the transaction is 'financially neutral' to retail customers."

Mr. Ball, would you agree that that has turned out to be the case?

A. No. The transaction reflects a revenue requirement increase as detailed in the Company's direct testimony.

MS. CAMERON-RULKOWSKI: Thank you, Mr. Ball.

No further questions.

MS. RACKNER: If I could, your Honor, I believe that the Staff just slightly misstated what the memo says. I don't believe that it's Mr. Twitchell who said that the -- that the transaction would be financially neutral. Mr. Twitchell noted that the Company initially stated that the transaction would be financially neutral, but then later on provided data

requests showing a near-term increase.

So it's just a fine correction, but I think an important one.

MS. CAMERON-RULKOWSKI: It's correct -- that's correct. The memo stated that it was reflecting what the Company had stated.

JUDGE FRIEDLANDER: Okay. Thank you.

Are there any Commission questions for Mr. Ball?

COMMISSIONER RENDAHL: I have just a few, Mr. Ball.

*** EXAMINATION BY COMMISSIONER RENDAHL ***

BY COMMISSIONER RENDAHL:

Q. So in terms of the decoupling mechanism and Staff's proposal for a trigger to the proposed decoupling mechanism, is there something unique to public -- to Pacific Power's Washington load and non-power electric service costs that support your recommendation for a trigger as this isn't included in either Avista or PSE's decoupling mechanism?

A. No. We proposed that because, as -- I believe the phrase that Ms. Steward used was cookie cutter. We don't really like using cookie cutters to just graft a mechanism onto a particular company.

What we were looking at in this case was to

evaluate this company in the con -- or evaluate this decoupling mechanism in the context of the Company as well as in the broader policy goals of Commission Staff for all the companies.

We make minute changes with every decoupling mechanism and proposals to see and test how these might affect a decoupling mechanism and how they might affect a utility's opportunity to earn.

The deferral mechanism was an idea to try and see if we could propose -- propose a decoupling mechanism, or support a decoupling mechanism while, at the same time, limiting the number of rate changes that occur with a traditional decoupling mechanism that PSE or Avista has where it changes annually.

Q. So in a sense, the trigger proposal is in response to the experiences you've gained with both Avista's and PSE's decoupling proposals?

A. That's correct.

Q. Okay. So you heard the questions I asked Ms. Steward about the PCAM?

A. Yes.

Q. Okay. And I'm not sure they were entirely clear, so my apologies to Ms. Steward.

What does -- what do you think -- what does Staff think of the proposal to include EIM costs in the

PCAM actuals as Boise and the Company propose?

A. We didn't undertake a detailed review of power costs in this case, and it's not an issue that I testified to.

Power costs -- we actually think power costs should just be left alone. We set the baseline -- we set the baseline very recently, and we don't support changing the baseline.

As far as including actuals, if the EIM is an actual cost that occurs when the Company is operating and dispatching power in their system, then it's an actual cost and it needs to be included in actuals.

Q. Okay. So if the Commission were to approve of Boise and the Company's proposal, would Staff want to revisit the inclusion of the fixed production costs and the PCAM in the Company's next rate case?

A. I'm sorry. What do you mean by "fixed production costs"?

Q. The fixed power costs.

A. I'm having a little trouble understanding. I think there might be some confusion here. I don't believe the Company has proposed to include fixed power costs in the PCAM at all.

The way I understand it is, the PCAM incorporates only variable costs, similar to what was

recently proposed with the PSE mechanism and what is currently in operation with the Avista mechanism.

Fixed power costs or fixed production related costs would flow through with the decoupling mechanism.

COMMISSIONER RENDAHL: Okay. Thanks.

That's all I have.

JUDGE FRIEDLANDER: Okay. Thank you.

I believe that's it. You're excused. Thank you very much.

Why don't we discuss what to do about the end of today and whether we're going to be going tomorrow. Let's go off the record to do that.

(A break was taken from 4:32 p.m. to 4:43 p.m.)

JUDGE FRIEDLANDER: We're ready to go back on the record.

And we have Ms. Huang. Okay.

MS. CAMERON-RULKOWSKI: Your Honor, it sounds like, since there are no questions for Ms. Van Meter, can she be excused?

JUDGE FRIEDLANDER: Yes. Yes. Thank you.

MS. CAMERON-RULKOWSKI: Thank you.

JUDGE FRIEDLANDER: And before we -- we are back on the record now, so before we get into additional testimony, Mr. ffitch, if you wanted to give that Utah

citation.

MR. FFITCH: Yes, your Honor. Thank you.

The Utah statute that was referenced is Session Law, Chapter 393, Enrolled Senate Bill 115, signed on March 29, 2016, effective May 10, 2016.

JUDGE FRIEDLANDER: Thank you.

MR. FFITCH: Thank you, your Honor. And it's my understanding that official notice is being taken of that.

JUDGE FRIEDLANDER: Yes, that's correct. And as agreed to prior to the testimony beginning, all of the exhibits on the exhibit list, including the cross-exam exhibits, have been admitted.

So Ms. Huang, if you would stand up and raise your right hand.

JOANNA HUANG, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated.

MR. BEATTIE: Thank you, Judge Friedlander.

/ / /

EXAMINATION BY MR. BEATTIE / HUANG

*** EXAMINATION BY MR. BEATTIE ***

BY MR. BEATTIE:

Q. Ms. Huang, could you please state and spell your name for the record?

A. My name is Joanna, J-O-A-N-N-A, last name H-U-A-N-G.

Q. What is your position with the Commission?

A. Regulatory analyst.

Q. Are you the same Joanna Huang who filed pre-filed responsive testimony in this case?

A. Yes.

Q. Is that testimony JH-1T?

A. Yes.

Q. And in the course of your direct testimony, JH-1T, you refer to Exhibits JH-2 through JH-6?

A. Yes.

Q. Were these exhibits prepared by you?

A. Yes.

Q. Do you have any corrections to either your exhibits or your direct -- or excuse me, your direct responsive testimony?

A. No.

Q. Do you affirm that testimony as though you were repeating it here today?

A. Yes.

EXAMINATION BY MR. COWELL / HUANG

MR. BEATTIE: Thank you.

Ms. Huang is available for cross-examination and for questioning from the bench.

JUDGE FRIEDLANDER: Thank you. And I believe that it's Mr. Cowell.

MR. COWELL: Thank you, your Honor.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. Good afternoon, Ms. Huang.

A. Good afternoon.

Q. So Ms. Huang, if you would start by turning to page 3 of your testimony, lines 19 and 20.

A. Yes.

Q. Now, you testified that plant and service balances at EOP levels are a more accurate reflection of rate base balances during the rate year in comparison to an average of monthly averages, or AMA, the AMA approach, correct?

A. Yes.

Q. Now, in support of your position, did you discuss or cite to the Commission's determination on the Company's EOP proposal in Pacific Power's last general rate case?

A. No.

Q. Are you familiar with that determination in the

EXAMINATION BY MR. COWELL / HUANG

last general rate case?

A. It's the four factors?

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

A. Yeah.

Q. Now, do you think, Mrs. Huang, that the Commission's determination on the Company's use of EOP rate base in Pacific Power's general rate case is something that should be considered in this proceeding?

A. Yes.

Q. If you could turn to the next page of your testimony, page 4, lines 1 through 4.

Now, you believe that Mr. Dalley and Ms. McCoy have adequately supported the Company's EOP proposal in this case, correct?

A. Yes.

Q. And in support of your opinion, in footnotes 1 and 2 of your testimony, I count that you cite to five pages of direct testimony for Mr. Dalley and Ms. McCoy; is that accurate?

A. Yes.

Q. Now, if you would turn to page 9 of your testimony, please, lines 6 and 7.

Now, you were also asked in your testimony whether the Company had adequately supported its accelerated depreciation proposal; is that correct?

A. Yes.

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

A. That's correct.

Q. Okay. And you went on to testify that the Company supported its accelerated depreciation proposal with only cursory and qualitative testimony by Mr. Dalley and Ms. McCoy; is that correct?

A. Yes.

Q. Now, this statement of your testimony was supported by footnote 16, right, on page 9?

A. Yes.

Q. Now, as I calculate here on page -- on footnote 16, you cited to six pages of testimony from Mr. Dalley and Ms. McCoy to support your position, right?

A. That's true.

Q. Okay. Now, going back again to the five pages of Company testimony you cited to support for testimony that Pacific Power had adequately supported its EOP proposal, do those five pages not constitute cursory and qualitative testimony?

In other words, what I'm trying to get at it, it would seem on face value to be about the same amount of testimony. In one, you have testified that it was adequate support, and the other one you said was merely cursory and qualitative testimony.

Does that make sense?

A. The reason I don't support the accelerated depreciation is, the main factor, the Company proposed only two. One is to align for Oregon's depreciation, and the other one is for flexible resources planning. So it's very skimpy to me.

Q. Okay. So in substance, even though it's about the same amount of testimony, you think there's a significant difference; is that correct then?

A. Yes. And then they don't have -- they didn't provide the depreciation study for this purpose.

Q. So staying here on page 9, Ms. Huang, lines 13 through 17, you quoted, and even included as an exhibit, what you described as a candid response from the Company stating that Pacific Power has not done any analysis or studies in its evaluation of whether to shorten depreciable lives of Jim Bridger and Colstrip units in its current filing; is that accurate?

A. Yes.

Q. And if you would turn to page 11, lines 8 through 10, please.

You offer the opinion that the Company failed to justify its accelerated depreciation schedule, right?

A. Yes.

Q. And in lines 13 through 14 on that page, you

also recommend that the Commission should postpone any adjustments related to accelerated depreciation until the Company updates its depreciation study, right?

A. Yes.

Q. Okay. So do you think it would be appropriate to approve the Company's proposal, though, considering the schedule in this proceeding is accelerated?

A. In this proceeding?

Q. Yeah. On the basis that it's accelerated?

A. No.

Q. Okay.

MR. COWELL: Actually that's -- no further questions.

Thank you, Ms. Huang.

JUDGE FRIEDLANDER: Thank you. Are there any -- I should ask for redirect.

MR. BEATTIE: No redirect, your Honor. Thank you.

JUDGE FRIEDLANDER: Thank you.

Any questions from the bench?

CHAIRMAN DANNER: No.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Ms. Huang, Commissioner Jones here. Were you here this morning when commissioners and others were

EXAMINATION BY COMMISSIONER JONES / HUANG

asking questions of Mr. Dalley?

A. Yes.

Q. Was there anything on the -- you spent a great deal of time on these two issues, alignment and flexibility.

A. Yes.

Q. Was there anything that you heard this morning that caused you to change your opinion on the alignment issue?

A. No, I will not change my position.

Q. And when is the new depreciation study scheduled to be delivered to Commission Staff?

A. Usually they file every five years, so last time it was in 2013, so I assume they will file in 2018.

COMMISSIONER JONES: That's all I have. Thanks.

JUDGE FRIEDLANDER: Thank you.

Okay. Thank you. You're excused.

Thank you. And I believe we have Ms. O'Connell next.

ELIZABETH O'CONNELL, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. Please be seated.

Ms. Cameron-Rulkowski?

MS. CAMERON-RULKOWSKI: Thank you, your Honor.

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

BY MS. CAMERON-RULKOWSKI:

Q. Good afternoon, Ms. O'Connell.

A. Good afternoon.

Q. Would you please state your full name?

A. My name is Elizabeth O'Connell. It's E-L-I-Z-A-B-E-T-H, capital O, apostrophe, capital C-O-N-N-E-L-L.

Q. Pull the microphone a little closer to you if you could.

Where are you employed, Ms. O'Connell?

A. I'm employed with the Washington State Utilities and Transportation Commission.

Q. And what is your position with the Commission?

A. I'm a regulatory analyst.

Q. Please direct your attention to Exhibit No. ECO-1T.

Is this testimony that you prepared on behalf of Staff in response to Pacific Power's pre-filed direct testimony?

A. Yes, it is.

Q. And in the course of your direct testimony, you referred to Exhibits ECO-2 through ECO-9.

Do you have any corrections to be made to your testimony or to your exhibits?

A. I have a correction to make to my testimony.

On page 32, line 11, it reads the "West Control Area," and it should read "Washington."

Q. Thank you. And were all of these exhibits prepared by you?

A. Yes, they were.

MS. CAMERON-RULKOWSKI: Ms. O'Connell is available for cross-examination and for questions from the bench.

JUDGE FRIEDLANDER: Okay. Thank you.

*** EXAMINATION BY MR. LOWNEY ***

BY MR. LOWNEY:

Q. Ms. O'Connell, my name is Adam Lowney. I'm counsel for Pacific Power. Good afternoon.

A. Good afternoon.

Q. So I actually -- I just have a few questions about your environmental remediation adjustment.

So the first one is, I just want to make sure we're clear on the correction you just made. So your original proposal, at least as it was stated in lines 10

and 11, was to include all environmental remediation expenses for projects that are located in the West Control Area, and now you would just include projects that are located in Washington; is that correct?

A. That is correct.

Q. Okay. And I just wanted to -- just to make sure we're all on the same page, there was another correction that relates to your adjustment that was included in Mr. Ball's revenue requirement exhibit that was filed on Friday; is that correct?

A. That is correct.

Q. And just for frame of reference, that would be Exhibit JLB-2R, and it's page 52?

A. I believe so, yeah.

Q. That's correct?

A. That's correct.

Q. And just so we -- to make sure I understand this adjustment or this correction, in the original exhibit you had taken -- or Mr. Ball had taken -- I'm not sure who -- the remediation costs for projects located in Washington, and then you had applied the SO factor to those costs in calculating the revenue requirement, correct?

A. That was initially filed, yes.

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

Washington -- of the costs associated with Washington projects to the revenue requirement, correct?

A. That is correct.

Q. Okay. So I think -- I just wanted to make sure we're all on the same page.

And so based on -- on the two corrections that have happened, both in Mr. Ball's testimony and to your own, you would agree that, under your proposal, Washington customers would pay 100 percent of the remediation costs associated with projects that are physically located within the state of Washington, correct?

A. On non-major projects, environmental projects that are located in Washington, yes.

Q. And to be clear, Washington customers would pay no costs for any environmental remediation project that's not located in Washington, correct?

A. For any non-major environmental remediation projects that are not located in Washington, yes.

Q. Okay. If you could turn to your exhibit, it's ECO-7, and this exhibit identifies the remediation projects that you include in your adjustment.

And just to give everybody a frame of reference, there's four projects at the top of this table that are all identified as Washington projects, and those are the

four projects that you include in your revenue -- in Staff's revenue requirement, correct?

A. That is correct.

Q. And all the projects at the bottom of the table you exclude from your revenue requirement, correct?

A. That is correct.

Q. And just looking, for instance, at the last three projects that are located -- or that are at the bottom of this table, they relate to the Bridger -- the Jim Bridger generating plant and coal mine; is that correct?

A. That is correct.

Q. And your position is that Washington customers should pay no remediation costs associated with the Bridger plant because it's not located in Washington, correct?

A. That is correct.

Q. Now, you agree that the Bridger plant does serve Washington customers and is included in rates under the WCA methodology, right?

A. Correct.

Q. But under your proposal, Washington customers receive that benefit but don't pay any costs associated with remediation efforts?

A. That is correct.

EXAMINATION BY MR. COWELL / O'CONNELL

Q. And you believe that that satisfies the Commission's standards for cost causation related to interstate allocation of costs?

A. In this case, it does.

Q. How so?

A. Um, basically, ratepayers in the state of Washington have no control over the decisions that led to these environmental projects, so I believe that it's -- the approach that I'm taking is a better approach for this particular project.

MR. LOWNEY: Thank you, Ms. O'Connell. That's all the questions I have.

JUDGE FRIEDLANDER: Thank you. Mr. Cowell?

MR. COWELL: Thank you, your Honor.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. Good afternoon, Ms. O'Connell.

A. Good afternoon.

Q. So Ms. O'Connell, if you would turn, please, to page 6 of your testimony and lines 3 and 4.

A. Um-hmm.

Q. Okay. Now, you've testified that the Commission only allows pro forma adjustments that give effect for the test period to all known and measurable changes that

are not offset by other factors, correct?

A. Correct.

Q. And on lines 13 and 14, you then explain that "An offsetting factor is any factor that diminishes the effect of a known and measurable event," right?

A. Correct.

Q. And same page, lines 14 and 15, you even testified that the exclusion of offsetting factors creates a mismatch in that a known and measurable -- known and measurable changes are either overstated or understated, correct?

A. Correct.

Q. Now, if you'd turn, please, to page 8 of your testimony, lines 19 and 20.

You have testified that certain pro forma adjustments are appropriates for inclusion in the second year of the Company's proposed rate plan, right?

A. Correct.

Q. Okay. And same page, lines 23 through 25, in support of this position, you explain that "Staff will have an opportunity following the Company's attestation filing to review the final costs for both projects before any costs are included in the 2017 rate year," right?

A. Yes.

EXAMINATION BY MR. COWELL / O'CONNELL

Q. Now, Staff anticipates that this attestation period would last about 60 days; is that right?

A. I believe so, subject to provision, yeah.

Q. Now, during this 60-day attestation period, would Staff also be reviewing any offsetting factors that might diminish the effect of known and measurable costs to be included in the second rate year period [sic]?

A. I believe so, that we could review any potential offsetting factors. But at this point, Staff doesn't have any reason to believe that there will be an offsetting factor.

Q. So in terms of -- I'm sorry.

A. So given that -- we don't expect that to happen, but we could review the possibilities of any offsetting factor in the future, yeah.

Q. And that would apply to all parties, right, by your testimony, could review any offsetting factors during that attestation period?

A. I would defer the answer to that question to Mr. Ball to be more precise.

Q. Okay. But your testimony is that Staff could --

A. Yes.

Q. -- is that correct?

A. Yes.

EXAMINATION BY MR. COWELL / O'CONNELL

Q. Okay. So in preparation for your testimony in this proceeding, you familiarized yourself with the Commission's known and measurable standards; is that true?

A. Yes.

Q. Okay. And on page 8 of your testimony, do you see lines 3 to through 12, you provided a block quote as to how the Commission described this standard, right?

A. Yes.

Q. Okay. Now, have you reviewed the testimony of Mr. Mullins?

A. I believe so, yeah.

Q. Okay. Do you have a copy with you there?

A. I don't have a copy with me.

Q. Let me maybe ask it this way.

In your -- in your block quote, are you aware that you omitted the last sentence from that paragraph that you cited?

A. Can you rephrase that?

Q. In the block quote, lines 3 through 12 on page of 8 of your testimony, are you aware that there's one more sentence in the paragraph that you cited there?

A. I am not aware of that, no.

Q. Okay.

MR. COWELL: No further questions,

your Honor. Thank you.

JUDGE FRIEDLANDER: Thank you.

Does Staff have any redirect?

MS. CAMERON-RULKOWSKI: I do, your Honor.

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

BY MS. CAMERON-RULKOWSKI:

Q. Ms. O'Connell, I'm going to refer you back to ECO-7.

You were asked about the projects below the -- all of the projects below Washington. And what I would like to ask you about those projects is, are those projects major environmental remediation projects or non-major environmental remediation projects?

A. According to the Company, they're non-major remediation -- environmental remediation projects.

Q. Now, what is the source of the definition of "major"?

A. The definition of "major" environmental project comes from the Order UE -- UE-031658, where it is defined that "Any environmental projects that involve a total Company expenditure of more than $3 million systemwide are defined as major environmental projects."

MS. CAMERON-RULKOWSKI: Thank you. That's all I have.

JUDGE FRIEDLANDER: Thank you.

EXAMINATION BY MS. CAMERON-RULKOWSKI / O'CONNELL376

Are there any questions from the bench?

CHAIRMAN DANNER: No questions.

COMMISSIONER JONES: No questions.

COMMISSIONER RENDAHL: No.

JUDGE FRIEDLANDER: Okay. Then you're excused. Thank you so much for your testimony.

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: I believe the commissioners may have had -- or Commissioner Rendahl, did you have a question for Ms. Ramas? Is it Ramas -- Mr. ffitch, is it "Raymas" or "Ramas"?

MS. RAMAS: Ramas.

COMMISSIONER JONES: I do.

JUDGE FRIEDLANDER: Thank you.

MR. FFITCH: You don't want to get that wrong.

COMMISSIONER RENDAHL: I think actually Commissioner Jones has questions.

JUDGE FRIEDLANDER: Okay. If you would approach the witness stand.

DONNA M. RAMAS, witness herein, having been first duly sworn on oath, was examined and testified as follows:

EXAMINATION BY COMMISSIONER JONES / RAMAS

JUDGE FRIEDLANDER: Thank you. You can be seated.

Commissioner Jones?

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. Good afternoon, Ms. Ramas.

A. Good afternoon.

Q. Thank you for your patience. We're just nearing the end, I think.

A. Happy to be here.

Q. In your testimony, and I think it is in pages -- what is your exhibit?

A. I believe it's DMR-1T.

Q. Yeah, DMR-1T.

So starting on page 29, you suggest the Commission determine that a regulatory liability account should be established, correct?

A. Actually, my primary recommendation is that no change be made at this time.

Q. Correct, yeah.

A. But if the Commission determines that some action should be taken as part of this case, then the preferred approach would be to set up a regulatory liability as opposed to putting changes in depreciation

rates that would result in depreciation no longer being based on the current anticipated life of the plan.

Q. Okay. Yes, I realize that this is your alternative recommendation.

A. Yes.

Q. Okay. And before we get to the details of that, I have a few detailed questions.

On the Oregon -- you were here this morning, and I think a few of us asked questions about the Oregon Public Utility Commission's decision in 2008 to track incremental depreciation expenses for out-of-state coal units in this manner.

Did you hear anything -- have you been involved in those cases?

A. No, but I did go back and read the order in that past Oregon case, as well as some of the exhibits that have been submitted in those cases.

And it's my understanding that they didn't set up a regulatory liability, but what they did is actually went back to the previous depreciation lives. So they did actually change that depreciation rates that are being used in Oregon.

Q. Okay. Thank you.

And then you go on to say that a separate proceeding would probably be best to get into the

details of how to establish this regulatory liability account if we choose to do so?

A. Yes, absolutely.

Q. So have you reviewed -- have you had a chance to review Staff's proposal to require what I call D and R, decommissioning and remediation reporting? Is there information that the Commission would need in order to set the amount for recovery through such a regulatory liability account?

A. Yeah. I think the decommissioning and remediation concern was different from the depreciation-type issue. I believe Staff had a concern that, based on the current depreciation, assumed depreciation lives, that there may not be enough decommissioning and remediation being built up at this time. So that -- I viewed that as a little bit of a different issue.

But as part of any case where you look at these assets and whether or not some sort of advanced funding should occur, as part of that, certainly I would recommend looking at the current remediation funds and decommissioning funds that have been collected as part of that.

Q. Have you had a chance to review the Staff investigation report on Colstrip Units 1 and 2 that

Staff did on D and R, on decommissioning and remediation? Have you seen that?

A. I have seen it, and I read it, but I have to be honest that it's not real fresh in my mind at the moment.

Q. Well, my sense is it would be something like that. It would cover a whole range of issues both on the decommissioning of the plant and then the wastewater ponds and other EPA regulations on coal residuals, and it would probably look something like that. But the Company -- the burden would be on the Company to prepare that report.

And is that something you agree with in this regulatory proceeding is that the Company should prepare such a report?

A. Yes. The Company has the burden of demonstrating what its current projections of the remediation and decommissioning costs would be. And I would hope that, as part of any future depreciation cases, that that would all be factored into and considered as part of the setting and determination of the depreciation rates going forward.

But again, if the Commission determines that, instead of doing this through the next depreciation case that they would rather do something sooner -- and again,

that's not my recommendation --

Q. Right.

A. -- but if that was what the Commission wanted, I would assume that, as part of that, they should direct the Company to file that sort of information. That would be considered as part of it.

Q. Yes. And again, I realize you recommend this as an alternative, not as your primary recommendation, but in that report would be included things like accounting type mechanisms, like an ARO, an asset retirement obligation, and things like that, right?

A. Yeah. That's all items that are considered as part of the depreciation rates, too. But if you're looking to set up a separate regulatory liability type approach, then you probably should consider all that as part of determining what amount should be collected through the regulatory liability.

Q. And then would it be reasonable to create and start funding such a regulatory liability in this case -- again, I realize it's an alternative -- and then adjust the amount collected annually after considering the D and R reports?

A. I wouldn't recommend doing it as part of this case because, in my opinion, there hasn't really been enough evidence offered by the Company at this point to

justify what a reasonable amount to start collecting would be based on any sort of economic study or analysis, or plant life analysis.

Q. So --

A. And I wouldn't recommend changing it on an annual basis.

Q. No?

A. Yeah.

Q. Okay. So how would we go about picking an initial amount? Can you list some criteria that we should look at?

A. Um, I intentionally did not recommend a specific amount because it's my opinion that there really isn't enough information in this case to determine what a reasonable amount would be.

We still -- the Company's current plans, as of responding to discovery in this case for these plants, are the service lives that are currently rolled into the current depreciation rates.

So I haven't seen anything to base a regulatory liability on different assumptions or periods. I wish I had better guidance in that, but it's my opinion that there hasn't been enough economic analysis and study offered in this case to come up with a regulatory liability amount. It would have to be completed at the

Commission's discretion, and I really don't know what you would base that on.

Q. Right. But you did have a chance to review, and I think you go into it in some detail in your testimony, the depreciation study for the Bridger -- especially for the Bridger and the Colstrip 3 units in the 2013 depreciation study, did you not?

A. Yes, I did. And in fact, the adjustments I recommend in this case would reflect those rates that were approved in that study.

Q. Okay.

A. And again, if those rates stay in effect as a result of this case, then I'm not sure, you know, if you continue collecting at that pace until a future date. I'm not sure you need to establish a regulatory liability at this time as a result of this case.

Q. No, I understand that, but I -- I'll finish here.

Your recommend -- or your analysis is that, in this case, it is difficult to find sufficient vetted information, both on depreciation and all the other liabilities associated with Colstrip 3 and Bridger, to set up a regulatory liability account right now?

A. Yeah, that would be my opinion.

Q. Okay.

EXAMINATION BY MR. FFITCH / RAMAS

COMMISSIONER JONES: Thank you.

JUDGE FRIEDLANDER: Thank you. Are there any other questions?

All right. And I inadvertently preempted Mr. ffitch from laying his foundation. I did not do that intentionally. So if you would like to make any corrections on the record to your witness's testimony, I believe we're using the April 4th filed testimony as the most current for this witness.

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

BY MR. FFITCH:

Q. Yes. I'll just ask the witness to confirm that that April 4th version of the testimony is the version that's presented to the Commission.

A. Yes, it is.

Q. And do you have any changes or corrections to that testimony?

A. No, I do not.

MR. FFITCH: I'll -- unless you'd like me to go through --

JUDGE FRIEDLANDER: You did that very well. No, that's fine. Thank you. Thank you. I appreciate it.

And with no further questions, you're excused. Thank you for your testimony.

EXAMINATION BY MR. COWELL / MULLINS

THE WITNESS: Thank you.

JUDGE FRIEDLANDER: One more witness.

Mr. Mullins?

BRADLEY G. MULLINS, witness herein, having been first duly sworn on oath, was examined and testified as follows:

JUDGE FRIEDLANDER: Thank you. You can be seated. Mr. Cowell?

MR. COWELL: Thank you, your Honor.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. For the record, Mr. Mullins, could you please state and spell your full name?

A. Yes. My name is Bradley Mullins, spelled B-R-A-D-L-E-Y, last name M-U-L-L-I-N-S.

Q. And how are you employed, Mr. Mullins?

A. I am a consultant that represents large energy users throughout the West.

Q. And in this role, did you prepare testimony and exhibits on behalf of Boise White Paper, LLC?

A. I did.

Q. And are those Exhibits BGH-1CT through BGM-11,

including revised versions of BGM-3 and BGM-11?

A. They are.

Q. And Mr. Mullins, do you have any changes or corrections to your testimony or exhibits?

A. I'll make one slight change to my direct testimony.

On page 27 of Exhibit No. BGM-1CT, there's a Table 3 at the top of that page -- and I'll let folks get there -- and I just wanted to clarify that those numbers are on a Washington allocated basis. So the title should read "Colstrip Unit 3, O&M (Washington Allocated)."

Q. Any other corrections, Mr. Mullins, or changes?

A. No.

Q. So Mr. Mullins, if I were to ask you the same questions today in your exhibits -- I mean in your testimony, would your answers be the same?

A. Yes.

MR. COWELL: Thank you, your Honor. I believe the witness is available for cross-examination.

JUDGE FRIEDLANDER: Thank you.

MR. LOWNEY: Thank you, your Honor.

*** EXAMINATION BY MR. LOWNEY ***

BY MR. LOWNEY:

Q. Good morning, Mr. Mullins.

EXAMINATION BY MR. LOWNEY / MULLINS

A. Good afternoon.

Q. I'd like to first start by asking a few questions about the Company's proposed rate plan.

So just to get us all on the same page, you would agree that the Company has proposed a second-year rate increase in this case, correct?

A. The Company has proposed a second-year rate increase, correct.

Q. And if you could turn to page 9 of your response testimony, please.

A. Okay.

Q. Now, directing your attention to lines 5 through 10 on that page, you oppose the Company's requested second-year rate increase because the Company has not performed an attrition study; is that correct?

A. Correct. So without such an analysis, it's not possible for us to demonstrate persuasively that there's attrition outside of the Company's control.

Q. And in those same lines of testimony, you specifically contrast the Company's approach in this case with Avista's approach in its 2015 rate case, where that company did rely on an attrition study, correct?

A. Correct.

Q. And you testified in that Avista case also; is that correct?

EXAMINATION BY MR. LOWNEY / MULLINS

A. I did.

Q. Now, if you could just turn to Cross-Exhibit 12CX.

A. Okay.

Q. And this is an excerpt from your testimony in that Avista case; is that correct?

A. Correct.

Q. Okay. If you could turn to -- it's page 2 of the exhibit, which is page 12 of the original testimony.

And beginning on line 3 on page 2 of the exhibit, you testify regarding Avista's use of a trend-based revenue requirement methodology used in their attrition study; is that correct?

A. Yes.

Q. Now, beginning down on line 5 of page 2, you testified that one of the consequences of using an attrition study is that "a utility that is working hard to reduce its costs and prioritize capital expenditures could, in fact, be penalized and subject to a negative attrition adjustment," correct?

A. So this -- in general, correct. So this testimony here generally showed or indicated that, if you have downward trending costs, that you wouldn't have an attrition adjustment under the Avista -- Avista's approved method.

EXAMINATION BY MR. LOWNEY / MULLINS

And I'll just note that this -- the -- you know, this testimony was in opposition of that methodology, and the Commission has subsequently accepted that methodology for ratemaking in Avista's prior general rate case.

Q. Okay. And let's just continue on.

If you could turn to page 3 of that exhibit, and it's the same paragraph.

So beginning on line 1, you testified, and I'll quote here, "It is bad policy to reward those utilities with rapidly escalating costs while penalizing those utilities that are undertaking efforts to control costs. Such a policy will send a strong incentive for a utility to disregard cost controls and to engage in unrestrained spending on capital projects."

Now, that's your testimony in that Avista case, correct?

A. Correct.

Q. And in that same section of your testimony in the Avista case, you specifically cite Pacific Power as a utility that has actively managed its costs and would be penalized by an attrition adjustment, correct?

A. So I -- I cite to words that were used by Mr. Dalley in the 2014 general rate case. So it's not my testimony, necessarily, the extent to which

Pacific Power is working to control its costs. If this is true, however, that their costs are actually declining, that be would an indication that they do not need an attrition allowance.

Q. So to be clear, in the Avista case, you argued that it's bad policy to set rates based on an attrition study; and here you claim the Commission cannot set rates without an attrition study, correct?

A. No. So I think the Commission can set rates without an attrition study. I think the question is whether the -- whether a second-year rate increase is -- is -- is an attrition adjustment or is warranted based on claims of attrition. And I think without an attrition study, I don't think you can get to that point.

Q. Now, if you could turn to page 6 of your response testimony, please.

And I'm going to ask you a question about the testimony on lines 1 and 2, which actually is the tail end of a sentence that begins on the previous page.

But you recommend in this portion of your testimony that the Commission reject the Company's proposed rate plan because the Commission, quote, ought -- or excuse me -- the plan, quote, "ought to be supported by a holistic review of the Company's earnings

rather than discrete changes."

Is that your testimony?

A. Yes.

Q. Okay. Let's go back to Exhibit 12CX, which again was your testimony in the Avista rate case.

A. Okay.

Q. And this time, if you could refer to page 4 of that exhibit, please, which is page 23 of your original testimony.

A. Okay.

Q. And there on lines 13 to 15, you criticized Avista's proposal because, quote, "...the majority of capital items are not discrete capital items, which the Commission has any ability to review on the basis of being known and measurable and used and useful."

Is that a correct reading of your testimony in the Avista case?

A. Yeah. So maybe to put this into context, so if you note here, the page numbers kind of jump around, so this testimony was kind of structured in two pieces. So the first part was on the concept of attrition, and then the second part was just the traditional pro forma revenue requirement adjustments.

And so this was, I believe, the second part where we were going through the Company's pro forma

revenue requirement adjustments and trying to figure out, you know, what made sense in the case.

And so -- and so that's what this specific section is -- is testifying to, is whether the pro forma capital additions included in the Company's pro forma study were appropriate.

Q. Now, you would agree, though, that in this case, unlike the Avista case, the Company's second-year increase is based on discrete -- three discrete capital projects and the expiration of production tax credits, correct?

A. Yeah. Maybe -- could you repeat that?

Q. The Company's second-year rate increase in this case is based on three capital projects and the expiration of production tax credits, correct?

A. So the -- well, kind of. So the second-year rate increase is based off of pro forma case and -- for the first rate period, and then it's a few discrete pro forma adjustments beyond that. And we, Boise, don't think it's appropriate to go that far beyond the test period and to only analyze those very limited, discrete changes without being able to look at all of the offsetting factors that might transpire over the next year as we sort of move forward.

Q. Now, going back to the Avista case, unlike that

case, the Company in this case has also agreed to file attestations related to each project prior to the second-year rate change, correct?

A. I believe so.

Q. So you would agree that, before the capital projects are included in rates, the Commission and the parties will have an opportunity to verify that the costs are known and measurable and the projects are used and useful, correct?

A. Well, so this is a question -- I mean, so there's a lot of details to be worked out in that sort of process. So, for example, if the capital costs come in higher than what they're proposing in this case, is -- I mean, are they limited only by what is included in this case, or can they have more capital included afterwards if the costs come in higher. So I think there's a lot of details that -- that I certainly don't understand yet if that was to be approved.

Q. But you agree that, under an attestation, the costs will be known and measurable before they are included in rates?

A. Yeah. I think you could probably structure it in such a way that it would be known and measurable.

Q. Okay. Let's turn to your response testimony on page 8, please.

EXAMINATION BY MR. LOWNEY / MULLINS

A. Okay.

Q. Now, on lines 8 to 13 to page 8, you testify that the Company's proposed rate plan constitutes "single issue" ratemaking; is that correct?

A. Correct.

Q. And you argue that single-issue ratemaking is disfavored as a matter of policy, and you cite in footnote 8 to an Avista order from 2007; is that correct?

A. That's correct.

Q. And I'd just like to ask you a few questions about that order.

Do you have a copy of it with you?

A. I do not.

Q. Okay. I thought you might not, so I've got one.

MR. LOWNEY: And if anybody else would like copies...

BY MR. LOWNEY:

Q. All right, Mr. Mullins. So going back to the Avista case that you cite, now, in that case -- and just so the record's clear, this is the Avista case that's cited in footnote 8 of your testimony. It's docket UG-060518, Order 04, the service date is February 1st of 2007.

That's the order that you're referring to at

this point, correct, Mr. Mullins?

A. Just a minute. All right. That's the correct order.

Q. Now, in this order, Avista had requested a decoupling proposal; is that correct?

A. That's my understanding.

Q. All right. Now, let's turn to paragraph 19.

And for the record, this is the paragraph, the specific pinpoint cite that you included in your testimony --

A. Okay.

Q. -- as the basis of your recommendation regarding single-issue ratemaking.

Now, this paragraph in the order describes a Public Counsel argument that decoupling violates the matching principle through single-issue ratemaking, correct?

A. Correct.

Q. And as you quote in your testimony on line 13, the -- excuse me -- page 8, line 13, "The problem with single-issue ratemaking is that it could result in over-earning by the Company and over-paying by customers," correct?

A. Correct.

Q. And that's also reflected in this paragraph 19

of the Commission's order, correct?

A. Correct.

Q. But you would also agree that, in this case, the Commission approved decoupling over the objection that it constitutes single-issue ratemaking, correct?

A. Correct.

Q. And if you could just turn to paragraph 25 of this order, which is on page 8, I believe, and the very last sentence in paragraph 25, the Commission specifically indicated that [as read] "It is reasonable to conclude that the application of an earnings cap and exclusion of weather from the mechanism will prevent such a significant shift in risks that the Company would earn windfall profits."

So would you agree that, in this case, the Commission found that the earnings test that was a part of the proposed decoupling mechanism would mitigate concerns over single-issue ratemaking and potential windfall of profits?

A. I'm sorry. You're going to have to point me to that specific --

Q. It's the --

A. -- those specific words.

Q. -- last sentence on paragraph 25.

A. Okay.

EXAMINATION BY MR. LOWNEY / MULLINS

Q. It begins with the words, "It is also reasonable to conclude..."

A. Okay.

Q. So you would agree that the -- at least as this sentence reads, one of the reasons that the Commission cites for approving the decoupling mechanism, over objections that it's single-issue ratemaking, is because there was an earnings test involved that would prevent the Company from earning windfall profits, correct?

A. That certainly seems to be one of the -- one of the reasons why it was approved.

Q. And you would agree that the Company's decoupling proposal in this case also includes an earnings test, correct?

A. So just to be clear, my testimony is not on the decoupling mechanism, per se.

Q. Are you familiar at all with the Company's proposed decoupling mechanism?

A. I am.

Q. And are you familiar with the fact that it includes an earnings test?

A. Yes.

Q. Okay. Now, let's move on and I'll ask you a few questions about some of your proposed adjustments to the WCA.

EXAMINATION BY MR. LOWNEY / MULLINS

If you could turn to page 29 of your response testimony, please.

A. All right.

Q. Now, on lines 15 through 17 of that page of your testimony, you recommend that, for purposes of inter-jurisdictional cost allocation, transmission O&M expense should be allocated using a different methodology than the Company's proposal in this case, correct?

A. Yeah, that's right. So the current methodology that the Company uses for transmission O&M is based on a system allocation. However, the amount of transmission plant physically located on the West side of the system is much less than the amount of plant located on the East side of the system. So therefore, we think that O&M should follow that same pattern, just as the Company does for wheeling revenue. So wheeling revenues, the -- Washington actually gets a lower share of wheeling revenues because there's less plant on the -- on the West side of the system.

Q. So I think -- just so we're on the same page here, I want to make sure that what you just said is consistent with your testimony.

So if you could just look at page 27, please, lines 4 to 5, and I believe this is consistent with what

you just testified to.

And that is, quote [as read], "The Company currently allocates transmission O&M based on a system generation or SG factor."

And that's consistent with what you just testified to, correct?

A. Correct.

Q. Now, despite your testimony, both pre-filed and today, you know the Company does not actually allocate transmission -- all transmission O&M expense using that factor, correct?

A. That's true. I believe that some is allocated on an SE factor. I believe that's correct. But it's still a system allocation.

Q. Well, let's turn to the exhibit that you attached to your testimony. This is Exhibit BGM-7. And this is the -- for reference, this is the Company's West Control Area Inter-Jurisdictional Allocation Methodology Manual, correct?

A. Correct.

Q. Now, if you'd turn to page 3 of the exhibit.

A. Okay.

Q. Now, at the bottom of that page under subheading 2, which is -- for reference is -- states Allocation of Resource Costs and Wholesale Revenues, it states,

"Generation and transmission resources are assigned to either the East Control Area or the WCA," correct?

A. Correct.

Q. And then it says, the next sentence [as read], "The factors used to allocate these costs are the Control Area Generation East, the CAGE, or the Control Area Generation West, the CAGW factors," correct?

A. Correct.

Q. And the next sentence says [as read], "Certain generation and transmission expenses such as administration and engineering cannot be assigned to specific resources. These costs are allocated using SG factor," correct?

A. Correct.

Q. So what we've just established is that the only costs that are allocated using the SG factor are costs that are not assigned to a particular resource, right?

A. Pursuant to this document.

Q. Which is the document you attached to your testimony justifying your position on the WCA, correct?

A. Correct.

Q. And would you agree that the CAGE and the CAGW factors that are applied to transmission O&M expenses allocated to a particular resource does take into account the different levels of transmission resources

on the East and West side of the system?

A. No.

Q. And why not?

A. Well, because it doesn't.

Q. Well, would you agree that if you apply the CAGE factor to a resource located in the East Control Area, that allocates zero percent of that cost to the WCA?

A. So transmission is allocated on a system basis. So the -- so there's no -- or the O&M itself is allocated on a system basis. So there's no -- no O&M that's explicitly assigned to the Western [sic] Control Area. It's all systems.

So that's why it makes sense to first carve it out on a system plant basis, and assign a certain amount to the West on -- in proportion to the amount of plant in the West, and then assign it on the basis of generation.

Q. Now, you agree that your -- your testimony regarding your understanding of the allocation of transmission O&M expense is contradicted both by the WCA manual we just discussed as well as the Company's Data Request No. 93 that you also attached to your testimony as BGM-5C, correct?

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

Q. Well, both of these documents say that

transmission O&M expense is allocated first by allocating the particular expense to a resource, and then only if the expense cannot be allocated to a resource is it allocated systemwide, correct?

A. I don't -- I don't believe that that's correct, no.

Q. Well, I'm asking you --

A. That's not my understanding, no.

Q. Well, both of these documents say that that's the way it's done, correct?

A. But it's not my understanding.

Q. And so what I asked you is, your testimony is being contradicted by both of the attachments you include as exhibits to your testimony, correct?

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

Q. It's page 27 of BGM-5C. It's the Company's response to Data Request -- to Boise Data Request 93.

JUDGE FRIEDLANDER: And this is a confidential exhibit. We're not going to get into any confidential information, are we?

MR. LOWNEY: No. This particular response is not confidential.

JUDGE FRIEDLANDER: Okay. Thank you.

COMMISSIONER JONES: So what page number are we on?

EXAMINATION BY MR. LOWNEY / MULLINS

MR. LOWNEY: Page 27.

COMMISSIONER JONES: 27 in the upper right.

BY MR. LOWNEY:

Q. Mr. Mullins, are you on that page?

A. I am.

Q. And you would agree that the way that you've just described how transmission O&M expense [sic] is different than what is reflected in this data request and is different than what's reflected in the WCA manual, correct?

A. Well, so I guess I don't really agree that this is -- I don't agree that there is -- or my understanding is -- was that there is no O&M expense that's explicitly allocated to the West. So I don't necessarily agree with this, no.

Q. Mr. Mullins, are you familiar with testimony of Ms. McCoy that was filed by the Company?

A. Yes.

Q. And do you have that testimony in front of you?

A. Which -- which version?

Q. It would be her direct testimony, I believe.

A. You know, I didn't bring her direct in this book, but we can grab it.

Q. Okay. All right. If you could refer to Exhibit No. SEM-3 --

EXAMINATION BY MR. LOWNEY / MULLINS

A. Okay.

Q. -- which is the Results of Operations for the Twelve Months Ended June 30, 2015.

A. On this one, it says that it's voluminous and provided under a separate cover so...

Okay.

Q. All right. If you could turn to -- under tab 2, which is -- says Results of Operation, turning to page 2.12.

A. Okay.

Q. All right. Now, if you look down on -- beginning on lines 509 on that page -- hopefully we're all on the same page at this point -- and 509 says, Summary of Transmission Expense by Factor.

Do you see that?

A. Okay. I do.

Q. Now, the first line, 510, shows SE, which is the factor you previously testified is used in addition to SG to allocate transmission expense.

And if you just follow that line over, you'll see that there's no expenses actually allocated by that factor, correct?

A. Correct. That's right. So that would be a correction from what I said earlier.

Q. And if you move down to line 512, that's the

CAGW factor that we just discussed that I believe you also testified does not apply to transmission. And if you look at the total number, it looks like there's $125 million of transmission expense allocated using that factor.

A. Correct, but that's not necessarily the O&M expense that we're talking about here. So the expense that we're reviewing is on line 511, and so that was -- those were the amounts that I was reviewing in my adjustment.

Q. But that's not -- that's not all the O&M expense, is it?

A. Well, I guess it depends on how you define O&M expense. I mean, so my definition was the -- was the costs specifically on that -- on that line.

Q. So I guess, just to clarify, when you testified that the Company assigned O&M expenses using the SG factor, you weren't actually talking about O&M expenses; you were talking about the O&M expenses that -- a limited subset of those expenses that could not be tied to a particular resource?

A. You know, that's actually generally right.

So as I'm looking at this, it looks like the -- so for example, on row 491, for example, there are amounts that are explicitly allocated to a -- on CAGW

basis, so I think that's right.

Q. All right. Now, let's move on to the second adjustment you proposed to the WCA allocation methodology related to general office expense.

If you could turn to page 32 of your testimony, please.

Now, on lines 5 to 11 of this page of your testimony --

JUDGE FRIEDLANDER: Um, before we get into that, we're not -- again, this is a page that's been designated as confidential. This isn't going to touch on the actual confidential information on the page, is it?

MR. LOWNEY: That's correct.

JUDGE FRIEDLANDER: Okay. Thank you.

BY MR. LOWNEY:

Q. Now, Mr. Mullins, going back to -- so lines 5 to 11 --

A. Okay.

Q. -- you recommend an adjustment that would use the system overhead or SO factor to allocate certain amounts booked to FERC account 557.

A. Okay. Yep.

Q. That's correct?

A. Correct.

EXAMINATION BY MR. LOWNEY / MULLINS

Q. Now, to support this recommendation in the footnotes, you cite to BGM-7, correct?

A. Okay. Yep.

Q. And that's the document we were just looking at, which is an exhibit to your direct testimony -- or excuse me -- your response testimony. That is an excerpt from the West Control Area Inter-Jurisdictional Allocation Methodology Manual, correct?

A. Correct.

Q. Now, you only included a small excerpt of that manual in your testimony, right?

A. Correct. It's a large document, and I know that you provided a cross-exhibit.

Q. Yeah, I did provide it. So let's look at that. This is BGM-13CX.

And would you agree that this is the full volume of the WCA manual?

A. Correct.

Q. All right. And I assume you've reviewed the entire document in preparation of your testimony in this case?

A. I have.

Q. And you would agree, then, that the manual includes a section where it describes the applicable allocation factors for every single FERC account,

correct?

A. Generally, yes.

Q. All right. Please turn to page 29 of the exhibit.

A. Okay.

Q. Now, the second box from the bottom is FERC Account 557, which is the account your adjustment applies to, correct?

A. Correct.

Q. And just going up a few lines to sort of get the heading for this account, this is an account that falls under the Other Power Supply heading, correct?

A. Correct.

Q. And if you look over in the third column, the furthest one to the right, it lists each of the allocation factors that apply to FERC 557, correct?

A. Correct.

Q. And the SO factor which you proposed to apply is not included here, correct?

A. Correct.

Q. So you would agree that your proposal is inconsistent with the allocation methodology that's currently approved by the Commission, correct?

A. Not necessarily. I mean, so the -- the manual does clearly say that general office expenses are

allocated on an SO basis. I think that the Company does, and maybe rightly so, point out that generation costs that aren't assignable to a specific side of the system are allocated generally on an SG factor. So -- but I don't think it's so clear-cut as your question might make it out to be.

MR. LOWNEY: Thank you, Mr. Mullins.

I have no further questions.

JUDGE FRIEDLANDER: Thank you.

Do we have any redirect?

MR. COWELL: Yes. Thank you, your Honor.

*** EXAMINATION BY MR. COWELL ***

BY MR. COWELL:

Q. So Mr. Mullins, we -- the cross-examination started out with reference to your testimony in Avista's recently completed general rate case.

And could you please explain the result of that case?

A. Yeah. So -- so in that case, as the Commission is well aware, an attrition allowance was accepted based on the use of a trending study, which went against our recommendation, or my recommendation on behalf of ICNU to adopt a traditional revenue requirement methodology.

Q. Mr. Mullins, we also talked about your testimony in single-issue ratemaking, and we talked about the

citation to your statement that single-issue ratemaking was disfavored.

Did you -- could you please explain if you went beyond that to say that single-issue ratemaking is more than disfavored by the Commission?

A. Well, I think it's a matter of policy. Single-issue ratemaking is very bad for consumers because it allows the Company just to pick those items which are increasing and pass those through to rates, while ignoring items that will potentially decrease.

And we've seen it -- just kind of a trend of single-issue ratemaking requests kind of throughout the West, and so it gets very concerning from a ratepayer perspective that this sort of trend is expanding.

Q. And we also talked -- or you discussed with Counsel about the Company's decoupling proposal.

And what is your understanding of the decoupling proposal application to Schedule 48?

A. So we have accepted the Company's recommendation to exempt Schedule 48 from the decoupling proposal; however, our recommendation is that we make some rate design changes that will better align that schedule with the goals of decoupling.

MR. COWELL: Thank you, Mr. Mullins.

No further redirect.

EXAMINATION BY CHAIRMAN DANNER / MULLINS

JUDGE FRIEDLANDER: Okay. Thank you.

Are there any questions from the bench?

COMMISSIONER RENDAHL: None for me.

JUDGE FRIEDLANDER: Thank you.

*** EXAMINATION BY CHAIRMAN DANNER ***

BY CHAIRMAN DANNER:

Q. So I wanted to just ask you a question about the Avista Order 04 in Docket UG-060518, and just -- is it your understanding that that is a pilot program?

A. Yes. Yes.

Q. Okay. And so as a pilot program, is it your understanding there would be some additional flexibility and learning involved? In other words, by doing that, it's not necessarily the Commission taking a hard stand for or against any particular attributes in it; it's really more of an opportunity to learn?

A. Yeah, I think so.

Q. It's also your understanding this is a settlement case --

A. Right.

Q. -- the case involved settlement?

A. Right.

CHAIRMAN DANNER: All right. Thank you.

I have no further questions.

JUDGE FRIEDLANDER: And we'll go ahead and

EXAMINATION BY COMMISSIONER JONES / MULLINS

take official notice of this as well just to have it in the record.

COMMISSIONER JONES: Just one quick question.

*** EXAMINATION BY COMMISSIONER JONES ***

BY COMMISSIONER JONES:

Q. If you could turn to page 10 of your testimony, please.

On lines 2 through 8, you talk about your proposal for a second -- for the second rate increase.

Are you there?

A. On page 10, lines 2 through 8?

Q. Yeah.

A. Okay.

Q. And you propose a stay-out on new rate increases through January 1st, 2019?

A. Correct.

Q. And so what is the basis of that? A few of us have been very involved in the regional ISO and the ISO integration issues, but I don't -- I'm a little puzzled about how you tie the two together.

A. Well, first of all, I think we want to thank the Commission for being so involved in the process. I think it's a very important process, and I think now is the time to be involved if you want to have an impact on

the end result.

As far as the rate plan goes, you know, when we were kind of working through the revenue requirement issues, we kind of viewed it as an overall sort of package of what we viewed to be reasonable.

And you know, I think what we don't want is to be in a situation where the Company is filing for new rates in June of 2018, and then joins the ISO within, you know, a matter of six months, and by doing so, it has a sort of dramatic or a different impact on their costs. And so from our perspective, it would be nice to sort of line those two up to have it be a little more cleaner.

Q. So it's not any advocacy at this point because it's going to be a huge issue if it happens. There's going to be a lot of litigation, and I would assume a lot of issue with the transmission assets. This goes far beyond an EIM so -- but what you were talking about is just lining up the dates here?

A. Right.

COMMISSIONER JONES: Okay. Thank you.

That's all I have.

JUDGE FRIEDLANDER: Thank you. I believe that's all that we have, Mr. Mullins. Thank you for your testimony and you're excused.

I've been looking at my notes. I don't see that there's any other issues that we need to address before adjourning.

Does anyone else have something they'd like to raise?

All right.

MS. MCDOWELL: So your Honor, we were just having a brief conversation about the follow-up from Mr. Strunk, and he did send an e-mail which has the information.

Is it -- I'm just wondering if it's better to provide it through some kind of formal writing or -- I mean, I'm happy to look at my e-mail and see what it says, but perhaps it would be best to present it in a formal letter to you or something -- submission to you tomorrow.

JUDGE FRIEDLANDER: I think that would be appropriate, and that way you can file it electronically as well, and we'll have it all in the record.

MS. MCDOWELL: Yeah, I thought that might be a better way to cover it for the record, so we're happy to follow up tomorrow morning with that.

JUDGE FRIEDLANDER: Thank you. That would be great.

Is there anything else?

All right. We're adjourned for this phase until we get to phase two.

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

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C E R T I F I C A T E

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I, ANITA W. SELF, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript is true and accurate to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 26th day of May, 2016.

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ANITA W. SELF, RPR, CCR #3032