Exhibit No. ___T (TES-11T)
Docket No. UE-050684
Witness: Thomas E. Schooley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP, d/b/a Pacific Power & Light Company, Respondent.	DOCKET NO. UE-050684

SUPPLEMENTAL TESTIMONY OF

THOMAS E. SCHOOLEY

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

RE: PACIFICORP GENERAL RATE CASE

January 27, 2006

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Thomas E. Schooley. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504. My email address is tschoole@wutc.wa.gov.

Q. Did you present testimony earlier in this docket?

A. Yes. My prior testimony and exhibits are Exhibit No. 631-T and Exhibits 632 through 640. My qualifications are contained in Exhibit No. 632.

II. SCOPE OF SUPPLEMENTAL TESTIMONY

Q. What is the scope of your supplemental testimony?

A. This supplemental testimony addresses the proposed adjustments arising from the Settlement Stipulation filed in Docket No. UE-051090, regarding the acquisition of PacifiCorp by Mid-America Energy Holding Company (MEHC).

Q. What specific adjustments do you address?

A. I address the adjustments proposed by Company Witness Wrigley in his Exhibit No. ___ (PMW-10T). The Company identifies those adjustments as follows:

Adjustment 4.21, West Valley Non-fuel Costs

Adjustment 4.22, Affiliate Management Fees

Adjustment 4.23, A&G Stretch Goals

Adjustment 4.18, Property Insurance

In addition, I calculate the revenue requirements impacts of the adjustment proposed by Staff witness Mr. Elgin.

III. ANALYSIS OF COMPANY-PROPOSED ADJUSTMENTS

Q. What is the Company's calculation of the total benefits to Washington revenue requirements in the four proposed adjustments described by Mr. Wrigley in Exhibit No. ___ (10-T)?

A. The Company's total is a $985,000 reduction in revenue requirements.

Q. What is Staff's calculation of the total benefits to Washington revenue requirements in the four proposed adjustments described by Mr. Wrigley?

A. Staff's total is a $462,000 reduction in revenue requirements.

Q. What causes the difference in the two figures?

A. The difference of $523,000 is because Staff does not accept Adjustment 4.23. Under Staff's case, PacifiCorp is below the threshold to trigger the adjustment for A&G cost reductions. I provide further explanation below.

a. Adjustment 4.21, West Valley Non-Fuel Costs

Q. What is Adjustment 4.21, West Valley Non-Fuel Costs?

A. The Company's Adjustment 4.21 reduces certain O&M costs associated with the West Valley Lease. The West Valley Lease is a transaction under which PacifiCorp acquires power from the West Valley Project located outside Salt Lake City, Utah. The project is owned by one of PacifiCorp's affiliates.

Q. Is Adjustment 4.21 appropriate?

A. Yes, but only for the period of time the Commission includes West Valley O&M costs in the costs allocated to the state of Washington. In this case, Staff, through witness Mr. Buckley, is proposing the Commission use a transitional allocation method in which the fixed lease cost payment for West Valley is removed, but the fuel and other O&M costs are included. This treatment is shown in Staff Exhibit No. 639.

Because the fuel and all operations and maintenance costs of the West Valley Lease remain in Staff's revenue requirement calculation, the reduction to West Valley non-fuel O&M costs should be included.

This adjustment reduces revenue requirements by about $432,000.

Q. Mr. Wrigley states that this adjustment should not be included "if the Commission accepts a methodology in which Washington ratepayers do not pay for the West Valley plant – as proposed by Commission Staff – this adjustment would become moot." Exhibit No. ___ (PMW-10T) at 2, lines 4-8. Is Mr. Wrigley correct?

A. Partly. Staff agrees that if no O&M costs of the West Valley Lease are allocated to Washington, Adjustment 4.21 should not be made. However, as I just explained, Staff's transitional allocation method accepts the West Valley Lease O&M costs, so for the period of time that method is used, this adjustment is appropriate.

b. Adjustment 4.22, Affiliate Management Fees

Q. What is Adjustment 4.22, Affiliate Management Fees?

A. This Company adjustment reduces revenue requirements by about $30,000. The basis for the adjustment is that the Company agrees to increase the management fees PacifiCorp's affiliated companies pay to PacifiCorp's operating utility. Such fees reduce utility revenue requirements.

PacifiCorp is agreeing to set the total company amount of management fees paid by affiliates at $1.5 million, which is $350,000 more than the test year level of $1.15 million. $30,000 is Washington's share of that $350,000 difference. Staff accepts this minor change proposed by the Company in Adjustment 4.22.

c. Adjustment 4.23, A&G Stretch Goals

Q. What is Adjustment 4.23, A&G Stretch Goals?

A. This is potentially a $6 million dollar total company adjustment to expense, with $500,000 allocated to Washington. At the Washington revenue requirement level, this could potentially decrease revenue requirements by about $523,000. This adjustment is available to Washington, but only if the Company's system-wide Administrative and General (A&G) costs as determined by the Commission in this case exceed $228.8 million. If the

Commission's decision results in A&G expenses of less than $222.8 million, no adjustment would be made. A prorated level of cost credit is available for A&G expenses between the adjustment trigger level of $222.8 million and $228.8 million.

Q. What does the record show is the level of PacifiCorp's system-wide A&G costs?

A. Staff's Exhibit No. 633, page 1, column (5), line 17 shows a Washington A&G expense level of $15.9 million, which translates to a system-wide A&G expense level of about $221.6 million. This level is below the threshold that triggers Adjustment 4.23.

The Company's rebuttal Exhibit No. 198, page 1, line 18 shows Washington allocated A&G costs of $20.7 million, but the figure should be $18.2 million, after correcting for a misclassified item.[1] An $18.2 million level of A&G costs translates to system wide A&G costs of $238.7 million, which is above the level that triggers the adjustment.

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[1] Adjustment 5.8, Hydro Deferral Recovery, is "parked" in Admin & General expenses, but it belongs on the hydro expense line. The stated A&G expense in Exhibit No. ___ (PMW-10T) at 3:16 is $20.7 million, but after removing the effect on A&G from Adjustment 5.8, it becomes $18.2 million.

Q. Did you prepare an exhibit to show the above calculations?

A. Yes. Exhibit No. ___(TES-12) shows both the Company's and Staff's calculation of total Company A&G costs. The $238.7 million figure for the Company is shown in the "Adjusted Total" column, line 940. Staff's $221.6 million figure is the shaded amount in the same column.

Q. Would Adjustment 4.23 apply under the A&G expenses in Staff's case?

A. No. An Adjustment 4.23 would provide no benefit to Washington ratepayers because the A&G expense level in Staff's case is below the adjustment threshold of $222.8 million. Consequently, Adjustment 4.23 is not warranted.

Q. Will this adjustment apply in future cases?

A. Yes, if the $222.8 million threshold is exceeded in the future. I understand the Company has committed to make Adjustment 4.23 until 2010.

d. Adjustment 4.18, Property Insurance

Q. What is Adjustment 4.18, Property Insurance?

A. Adjustment 4.18, Property Insurance, is the same adjustment with that number in the Company's filed rate case. The Company commits to maximum amount of property insurance premiums of $7.4 million through 2010.

PacifiCorp currently acquires insurance from a captive insurance company. After the acquisition is completed, PacifiCorp will continue to pay premiums to a captive insurance company under MEHC, with insurance coverage equivalent to existing policies.

Q. Is Adjustment 4.18 warranted in this case?

A. No. The property insurance from the captive Scottish Power insurance company in PacifiCorp's filed case in the present docket is $7.37 million, or just under the cap of $7.4 million. Consequently, no adjustment from this commitment is warranted at this time. PacifiCorp also makes no adjustment for this item at this time. *Wrigley Supplemental Testimony, Exhibit No. ___ (PMW-10T) at 2, line 16, to page 3, lines 1-2.*

Q. Is it possible an Adjustment 4.18 could apply in future cases?

A. Yes, if the $7.4 million cap is exceeded in the future. I understand the Company has committed to make Adjustment 4.18, with a $7.4 million cap, until 2010.

IV. STAFF'S PROPOSED ADJUSTMENT TO RATE OF RETURN

Q. Please describe how you implemented the adjustment proposed by Staff Witness Elgin.

A. Consistent with the adjustment Mr. Elgin proposes, I prepared Exhibit No. ___ (TES-13) to amend the cost of capital to add debt from MEHC and to subtract an equivalent amount of common equity. The return on equity is also amended to 9.6% from 8.95%, per Staff Witness Elgin. The resulting rate of return is 7.0105% compared to Staff's previous cost of capital of 7.402%.

Q. What is the impact of this change to the revenue requirement proposed by Staff?

A. The impact of the changes to capital structure and return on equity reduce revenue requirements by about $6,401,000.

Q. Please explain the changes in Exhibits No. ___ (TES-13) and (TES-14).

A. Exhibit Nos. ___ (TES-13) and (TES-14) are based on Exhibit Nos. 633 and 634 as revised. Revised Exhibit 633 shows a revenue excess of $3,865,380. Exhibit No. 634 is modified to include the acquisition adjustments accepted by Staff, which I described earlier in this testimony, and Exhibit No. 633 is modified to present the cost of capital proposed by Staff Witness Elgin and the contested Adjustment 4.23.

Q. Does Exhibit No. ___ (TES-13) or Exhibit No. ____(TES-14) reflect any changes from PacifiCorp's rebuttal case?

A. No.

Q. What is the net effect of the MEHC-related adjustments accepted or proposed by Staff in its supplemental testimony?

A. The net effect of the MEHC-related adjustments is a reduction to revenue requirements of $6,863,314. This makes Staff's recommended total overall reduction to revenue requirements $10,728,694, which is a 4.8% reduction in rates.

Q. Does this conclude your supplemental testimony?

A. Yes.