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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)Docket UE-050684
Complainant,)Volume VI
vs.)Pages 443-633
PACIFICORP d/b/a PACIFIC POWER &)
LIGHT COMPANY,)
Respondent.)

In the Matter of)Docket UE-050412
PACIFIC POWER & LIGHT) (Consolidated)
Petition for an order approving)
deferral of costs relating to)
declining hydro generation.)

A hearing in the above-entitled matter was held at 9:37 a.m. on Friday, January 13, 2006, at 1300 South Evergreen Park Drive, S.W., Olympia, Washington, before Administrative Law Judges ANN RENDAHL and THEODORA MACE, Chairman MARK SIDRAN, Commissioner PATRICK OSHIE and Commissioner PHILIP JONES.

The parties present were as follows:

PACIFICORP, by Marcus Wood, Attorney at Law, Stoel Rives, LLP, 900 S.W. Fifth Avenue, Portland, Oregon 97229, and Jason B. Keyes, Attorney at Law, Stoel Rives, 600 University Street, Suite 3600, Seattle, Washington 98101.

Barbara L. Nelson, CCR
Court Reporter

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1 PUBLIC COUNSEL, by Simon ffitch,
Assistant Attorney General, 900 Fourth Avenue, Suite
2 2000, Seattle, Washington 98164.

3 COMMISSION STAFF, by Donald T. Trotter
and Robert Cedarbaum, Assistant Attorneys General,
4 1400 S.W. Evergreen Park Drive, S.W., P.O. Box 40128,
Olympia, Washington 98504-0128.

5 INDUSTRIAL CUSTOMERS OF NORTHWEST
6 UTILITIES, by Melinda Davison, Attorney at Law, 333
S.W. Taylor, Portland, Oregon 97204.

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1 Whereupon,

2 PAUL M. WRIGLEY,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5 JUDGE RENDAHL: Okay. Please go ahead, Mr.

6 Wood.

7 MR. WOOD: Thank you. In response to Judge
8 Rendahl's request before we went on the record, I
9 will state what I understand about Mr. Wrigley's
10 testimony and cross-examination today, as opposed to
11 when we expect that he will return, either on
12 February 2nd or 3rd.

13 Mr. Wrigley has addressed a number of
14 revenue requirement items. We anticipate that he
15 will also file testimony related to certain issues
16 connected with the MidAmerican -- potential
17 MidAmerican acquisition. It is our understanding
18 that the subjects related to the -- to any possible
19 adjustments as a result of the MidAmerican
20 acquisition will not be the subject of
21 cross-examination today and are not waived, but will
22 be the subject of potential cross-examination when
23 Mr. Wrigley returns on the 2nd or 3rd of February.

24 It is our understanding that
25 cross-examination -- that this is the time for

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1 cross-examination on all other subjects that the
2 parties choose to cross-examine Mr. Wrigley
3 concerning.

4 Mr. Wrigley is sponsoring exhibits numbered
5 191-T, 192, 193, 194, 195-T, 196, 197, 198 and 199.

6 JUDGE RENDAHL: And I'll note that -- I'll
7 note that we received this week revised -- Exhibit
8 195-T, a few revised pages are included in that
9 exhibit, as well as revisions to Exhibit 199, and
10 those were submitted by the company earlier this
11 week.

12 MR. WOOD: Thank you.

13

14 D I R E C T E X A M I N A T I O N

15 BY MR. WOOD:

16 Q. Mr. Wrigley, are the exhibits, as identified
17 and revised, were they prepared by you or under your
18 supervision and direction?

19 A. Yes, sir, they were.

20 Q. Do you have any further corrections to make
21 to these exhibits?

22 A. Yes, I do. If we turn to what's been marked
23 as 195-T, page six.

24 Q. This is your direct testimony?

25 A. No, my rebuttal testimony.

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1 Q. Rebuttal testimony.

2 A. Mr. Ward, from WUTC Staff, put in some
3 errata testimony, so my comments here about --
4 starting on line 18 no longer make sense, so I would
5 like to change them to read -- starting on line 18,
6 where it previously started "In addition" should now
7 read, "Mr. Ward would disallow 1.93 million on a
8 total company basis (161,000 Washington allocated)
9 and then allocate \$337,000 directly to Washington,
10 the net result of which is to increase Washington
11 expense by \$166,000."

12 JUDGE RENDAHL: Okay. Just to clarify, so
13 you would delete, at the beginning of that sentence,
14 starting on line 18, you would delete the words, "In
15 addition, Mr. Ward's calculation does not mirror his
16 testimony, which" -- and then insert "Mr. Ward?"

17 THE WITNESS: Yes.

18 JUDGE RENDAHL: Okay. Then changing the
19 number that's 2.25 million to 1.93 million?

20 THE WITNESS: Correct.

21 JUDGE RENDAHL: Then changing the next
22 number from 169 -- 169,000 to 161?

23 THE WITNESS: Yes.

24 JUDGE RENDAHL: And then the next number,
25 that's 336,000 to 337,000?

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1 THE WITNESS: Right.

2 JUDGE RENDAHL: And then the last number in
3 that sentence, from 148,000 to 166,000?

4 THE WITNESS: Yes.

5 JUDGE RENDAHL: Okay. And that's your
6 change?

7 THE WITNESS: On that page.

8 JUDGE RENDAHL: Okay.

9 THE WITNESS: Then on page seven, line 13, I
10 would change the number \$734,027 to \$782,071.

11 JUDGE RENDAHL: And that is in response to
12 Mr. Ward's errata?

13 THE WITNESS: No, it's not. The number in
14 my testimony and the number in my exhibit was
15 different. This makes the two numbers comport.

16 JUDGE RENDAHL: Okay.

17 THE WITNESS: And then on page eight,
18 beginning -- I referred to Mr. Widmer's testimony.
19 Mr. Widmer filed errata testimony, which changes the
20 number on line four from 7.5 to 8.3.

21 JUDGE RENDAHL: Okay. And are those your
22 changes?

23 THE WITNESS: Those are my changes.

24 Q. As revised, are the exhibits that we've
25 identified true and correct, to the best of your

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1 knowledge?

2 A. Yes, they are.

3 MR. WOOD: Mr. Wrigley's available for
4 cross-examination, Your Honor.

5 JUDGE RENDAHL: Okay. Thank you, Mr. Wood.
6 Mr. Trotter.

7 MR. TROTTER: Thank you, Your Honor. Was
8 the company moving those exhibits?

9 MR. WOOD: We would move the admission of
10 the identified exhibits, 191-T through 199.

11 JUDGE RENDAHL: Is there any objection to
12 admitting those exhibits? Hearing no objection, the
13 exhibits marked as 191-T through 199 will be
14 admitted.

15

16 C R O S S - E X A M I N A T I O N

17 BY MR. TROTTER:

18 Q. Mr. Wrigley, I'd like to start with your
19 rebuttal testimony, Exhibit 195-T, page 21, capital
20 stock expense.

21 JUDGE RENDAHL: Can you repeat the
22 reference, please?

23 MR. TROTTER: Exhibit 195-T, page 21.

24 JUDGE RENDAHL: Thank you.

25 Q. And the types of expenses we're talking

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1 about here are costs the company incurred when it
2 issued common stock to the public; is that right?

3 A. That's right.

4 Q. And these would be expenses such as payments
5 to brokerage firms who took the issue to market and
6 so forth?

7 A. Yes.

8 Q. And these are in the category of flotation
9 costs?

10 A. Yes, they are.

11 Q. And in the company's adjustment, Pacific is
12 seeking in this case to begin a 20-year amortization
13 in rates of the financing costs the flotation costs
14 it incurred in the years 1989 and prior; correct?

15 A. I think 1999 and prior.

16 Q. 1999?

17 A. Right. Yeah, prior to the merger with
18 Scottish Power.

19 Q. Okay. The company did not incur these costs
20 in the test period, then; is that correct?

21 A. No, they did not.

22 Q. The company will not incur flotation costs
23 in the foreseeable future because PacifiCorp no
24 longer issues common stock to the public; is that
25 right?

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1 A. That is correct.

2 Q. Now, on line 18, on page 21 of your
3 testimony, you say, Staff Witness Ward -- quote,
4 Staff Witness Ward does not say the cost should be
5 disallowed, unquote.

6 In fact, one of Staff's reasons for opposing
7 the company's adjustment is that it constitutes
8 retroactive rate-making; is that right?

9 A. Yes.

10 Q. Over on page 22, line six, you say the
11 common treatment for recovering flotation costs is to
12 add an increment to the return on common equity. Do
13 you see that?

14 A. Yes, I see that. That's commonly done, but
15 normally, because we ran ROEs to 10, 10.5, it gets
16 buried in the amount. If we could have, you know, in
17 Docket UE-991606, a specific reference to know we're
18 recovering these costs, we wouldn't need the
19 adjustment I'm proposing.

20 Q. And that docket was an Avista docket; is
21 that correct?

22 A. I believe so.

23 Q. Avista issues common stock to the public and
24 Pacific does not; is that correct?

25 A. That's right.

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1 Q. Now, you cite that order where the
2 Commission added a specific markup for flotation
3 costs; correct?

4 A. I do.

5 Q. Did you investigate prior rate orders
6 involving Pacific, from 1999 and prior, in which the
7 Commission added a markup for flotation costs for
8 Pacific?

9 A. I think the last order in this would have
10 been 1986, and I could find no reference to it at
11 that time.

12 Q. Well, I would refer you to the Commission's
13 order in Docket U-8212 and U-8235. I'll represent to
14 you that the Commission accepted the cost of equity
15 proposed by Staff and stated that Staff made an
16 adjustment to ROE to, quote, avoid the dilution of
17 the investment of existing stockholders, unquote, and
18 went on to remark that the adjustment was to, quote,
19 prevent the dilution from cost of financing, unquote.

20 Did you read that order before presenting
21 your testimony here?

22 A. I don't believe I did, that part of it. If
23 that's recovering flotation costs through ROE, I'm
24 all in favor of that happening in this docket.

25 Q. Okay. But if the Commission provided the

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1 company an increment to ROE in the past to cover the
2 flotation costs, to recover them now through this
3 amortization would be double recovery, wouldn't it?

4 A. Well, I think the last -- what docket
5 numbers were you quoting?

6 Q. The specific one I quoted was 8212 and 8235,
7 consolidated.

8 A. But the last docket -- we wouldn't have
9 recovered flotation costs from 1986 through 2006,
10 because I don't believe, in the 1986 order, which was
11 the last order for PacifiCorp, there is a reference
12 to flotation costs.

13 Q. But you didn't reduce the amount in the --
14 that you've booked to this capital account where
15 these costs are now located?

16 A. Right.

17 Q. You didn't reduce those by any prior
18 flotation cost adjustments to ROE in the past, did
19 you?

20 A. I don't know what happened between 1983 to
21 1986, but from 1986 forward, we haven't been
22 recovering them through flotation costs.

23 Q. Does the balance you're seeking to amortize
24 -- what is the beginning year in which dollars went
25 into that account for which you're now seeking

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1 amortization?

2 A. I believe sometime in the early 19th century
3 -- late 19th century.

4 Q. So it would cover the 1982 to 1984 time
5 frame?

6 A. It would cover part of those two years.

7 Q. You've made no reduction to the flotation
8 costs for which you are seeking recovery in this case
9 and that which you booked to Capital Account 214 for
10 the costs the company may have recovered through
11 increments to rate of return added in prior cases,
12 have you?

13 A. Not for the period 1982, 1986, no. I don't
14 know about prior periods.

15 Q. Did you make any adjustment for any prior
16 period?

17 A. I don't know.

18 Q. Well, you just told me that the amounts
19 booked to this account, we agreed at the outset that
20 they were booked in periods prior to 1989?

21 A. Sorry, 1999.

22 Q. 1999, you're right, and that the initial
23 year booking to this account would have been in the
24 early 19th century? I guess when --

25 A. Late 19th century.

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1 Q. When the company started?

2 A. Correct.

3 Q. Okay. Have there been any reductions in the
4 amounts booked to that account --

5 A. No.

6 Q. -- for any reason?

7 A. That's why I'm proposing this amortization.
8 This account just sits there on the books. The
9 company's never going to recover it unless we
10 amortize it.

11 Q. Unless it's already recovered a portion of
12 it through increments already granted in ROE by this
13 Commission?

14 A. Correct.

15 Q. Is that correct?

16 A. Correct.

17 Q. And you've made no adjustment for any such
18 increment to rate of return that this Commission has
19 allowed, have you?

20 A. No, we haven't.

21 JUDGE RENDAHL: Mr. Wrigley, if you could
22 wait until Counsel has finished his question before
23 you answer and, likewise, if you can wait to start
24 your question before the witness has answered, that
25 would be helpful.

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1 MR. TROTTER: Thank you, Your Honor. I'll
2 certainly do that.

3 Q. Let's turn to page seven of your rebuttal.
4 The next subject is Edison Electric Institute dues.
5 And you address this beginning on line 16; is that
6 right?

7 A. Correct.

8 Q. And the Staff-Company difference on this
9 adjustment is that Staff calculated a 43.6 percent
10 disallowance for EEI dues based on information EEI
11 reported to NARUC, and Pacific is proposing a 25
12 percent disallowance based on certain bills EEI sent
13 to PacifiCorp; is that right?

14 A. That is correct.

15 JUDGE RENDAHL: And for purposes of the
16 record, unless you didn't state it already, EEI is
17 Edison Electric Institute.

18 MR. TROTTER: I believe I said that, but if
19 I didn't, I apologize, Your Honor.

20 Q. Please turn to Exhibit 205.

21 MR. WOOD: 205?

22 MR. TROTTER: 205.

23 MR. WOOD: Does the Witness have Exhibit
24 205?

25 JUDGE MACE: It's a Staff cross exhibit.

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1 MR. TROTTER: It's a Staff cross exhibit.

2 MR. WOOD: Oh.

3 Q. And here we asked you for the --

4 A. Could you -- which data request?

5 Q. Okay. Three-sixty-one.

6 A. So -- okay.

7 JUDGE RENDAHL: What's been marked as
8 Exhibit 205 is a response to Staff Data Request 361.
9 Do you have that in your --

10 THE WITNESS: Yes, I do.

11 JUDGE RENDAHL: -- papers?

12 THE WITNESS: I found it now.

13 Q. And Staff asked you to produce the documents
14 -- the relevant invoices showing where you got your
15 25 percent figure?

16 A. Yeah, yes. I believe it's on footnote one.

17 Q. Okay. And let's go to that. The pages two
18 and three of the exhibit are two invoices, one dated
19 December of '03 and the other November of '02; is
20 that right? This is a little confusing. I'm sorry.

21 A. I can see that the dates on one is December
22 the 8th, 2003, and the other is November the 20th,
23 2002.

24 Q. Okay. And page two is for a payment due on
25 or before February 2004, and page three is for

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1 payment due on or before February 3rd, 2003; correct?

2 A. Correct.

3 Q. So you're billed in advance for the dues for
4 the following year, following 12 months?

5 A. The following calendar year, yes.

6 Q. And because we have a split test year in
7 this case, we see both of the invoices are in the
8 870, 840 range, so for the test year, it would be in
9 the 850 range, which is the figure you show on page
10 seven?

11 A. That's right.

12 Q. And you said that you got your 25 percent
13 from footnote one, which refers to the -- at least on
14 page two of the exhibit, with respect to the 755,000
15 portion of that bill, EEI stated to you that the
16 amount in there related to influencing legislation
17 not deductible for FIT purposes is 25 percent?

18 A. That's right, and Mr. Ward got this from
19 their Web site.

20 Q. Right. And so footnote one is where you got
21 your 25 percent?

22 A. Right.

23 Q. And you applied that 25 percent to the
24 entire test period amount for EEI dues?

25 A. For the EEI dues. I should note there's the

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1 industry structure assessment and the mutual
2 assistance program which are on the invoice. Pacific
3 doesn't participate in those programs and doesn't pay
4 those amounts. So the only amount we actually pay is
5 the regular activities of EEI.

6 Q. Okay. So you were billed -- just to take
7 page two, for example, you were billed for 876,000,
8 but you only paid 755?

9 A. That's right, and similar for the previous
10 year.

11 Q. Okay. The footnote one did not itemize the
12 element of EEI's costs for anything other than
13 lobbying; is that right?

14 A. Right.

15 Q. So EEI's costs of advertising, marketing or
16 public relations are not itemized on the bill; is
17 that right?

18 A. That is correct.

19 Q. And those items were not taken into account
20 in your 25 percent factor, were they?

21 A. No, the factor we're disallowing is very
22 similar to -- if you just bear with me. Mr. Kermode
23 -- sorry, Mr. Ward was disallowing the amount -- the
24 amount we disallowed of 25 percent is very similar to
25 the amount per legislative advocacy on Pacific on the

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1 EEI. He also disallowed advertising, marketing and
2 demand side management and public relations.

3 Q. Just one second. You said demand side
4 management. That's not on his list, is it?

5 A. Well, unfortunately the descriptions in his
6 exhibit are a little on the short side. The complete
7 things he disallowed under marketing was marketing
8 and demand side management. So what was disallowed
9 was strategic conservation --

10 JUDGE RENDAHL: Mr. Wrigley, before you go
11 farther, which exhibit are you referring to?

12 THE WITNESS: I'm not referring to anything.
13 I'm referring to a description of marketing and
14 demand side management provided to me in Mr. Ward's
15 work papers.

16 JUDGE RENDAHL: Okay. So you had referred
17 to an exhibit, and that's what I was questioning.

18 THE WITNESS: Oh, sorry. The exhibit I was
19 referring to was Mr. --

20 MR. TROTTER: It's 622, page two.

21 JUDGE RENDAHL: Let's be off the record for
22 a moment while we locate that.

23 (Discussion off the record.)

24 JUDGE RENDAHL: Let's go back on the record.
25 Mr. Wrigley, what are you looking at on this exhibit?

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1 THE WITNESS: I'm looking at the lines
2 legislative -- lines one through five.

3 JUDGE RENDAHL: And this would be on page
4 two of Exhibit 622, CJW-2?

5 THE WITNESS: Yes. And Mr. Ward proposes
6 disallowing five categories, which he takes from the
7 EEI Web site, and I disagree with some of these,
8 because the marketing is marketing for demand side
9 management, and what he's proposing to disallow is
10 strategic conservation, peak clipping, valley
11 filling, load shifting, strategic load growth and
12 flexible load shape, which are, I believe, all
13 activities that this Commission would approve of us
14 doing.

15 Similar, the advertising which is being
16 disallowed is for -- some of the things are
17 conservation, safety, customer education and is
18 legally required by governmental requirements, and I
19 think PacifiCorp should be participating in these
20 activities.

21 Q. You included none of those reasons in your
22 rebuttal testimony, did you?

23 A. No, it was only when I was looking through
24 Mr. Ward's work papers I found this information.

25 Q. Well, you received those work papers prior

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1 to filing your rebuttal, didn't you?

2 A. Yes, I did.

3 Q. What about legislative policy research?

4 A. I believe that the legislative -- the
5 definition of legislative policy research is that the
6 cost of all efforts spent on research or the
7 preparation of general or specific background
8 information studies, analysis, to discover the scope
9 and potential impact of potential legislation on EEI.

10 JUDGE RENDAHL: And where is that
11 information from?

12 THE WITNESS: That's also Mr. Ward's work
13 papers.

14 Q. And that is what gives rise to the
15 legislative advocacy, does it not?

16 A. The legislative advocacy is a separate
17 category, and it's very close to the 25 percent.
18 It's just slightly less, and I do agree that's the
19 amount that should not be picked up by ratepayers.

20 Q. Turning to the more general subject, apart
21 from EEI, the subject of miscellaneous general
22 expenses. In the last rate case, Staff found
23 non-operating costs in Accounts 920, 921, 923 and 930
24 that were being expensed above the line and Staff
25 pointed that out to the company. Do you recall that?

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1 A. I'm afraid I don't recall that.

2 Q. Will you accept that, subject to your check?

3 A. I will.

4 Q. And in this case, some non-operating amounts
5 were found in those same accounts, and you've agreed
6 to remove certain of them?

7 A. We have. We attempt to scour those accounts
8 and make sure that it's all below the line, but there
9 are many tens of thousands of lines of entries.

10 Q. Did the company take any special effort from
11 the last case to this case to put in procedures to
12 capture those before they're booked?

13 A. On a six-month basis, members of my
14 department go through each of the accounts 920
15 through 935 in an attempt to make sure all costs
16 properly booked below the line are booked below the
17 line.

18 Q. Please turn to -- just one second. Turn to
19 page ten of your rebuttal.

20 A. Sure.

21 Q. I'm going to wade into the subject of
22 working capital, Mr. Wrigley. And you start your
23 testimony on line ten by criticizing the Staff's
24 investor-supplied working capital methodology, and
25 you point -- you allege the unreliability of that

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1 methodology because of certain differences you found
2 by comparing Staff's exhibit calculation in this case
3 with the last general rate case; is that right?

4 A. That's right.

5 Q. And in the last case, the parties settled
6 the working capital issue, did they not?

7 A. I believe that to be correct.

8 Q. And it wasn't based on any specific
9 methodology, was it?

10 A. I believe -- I think you're correct there.

11 Q. The company is proposing to use lead-lag
12 study for calculating working capital; is that right?

13 A. Yes.

14 Q. And I guess, as you just agreed, neither
15 lead-lag, nor investor supplied working capital was
16 used as the method for the settlement in the last
17 case, was it?

18 A. I believe it was just a settled number in
19 the last case.

20 Q. On page 12 -- just a moment. Yes, on page
21 12, you, starting at line eight, you begin a series
22 of quotes from a book called Accounting for Public
23 Utilities, in which the author, Mr. Hahne, H-a-h-n-e,
24 discusses what he called the balance sheet approach
25 for calculating working capital; is that right?

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1 A. Yeah.

2 Q. And you were assuming, for purposes of your
3 testimony, that his remarks apply to the investor
4 supplied working capital approach used by Staff in
5 this case; is that right?

6 A. Yeah, the Staff approach is the balance
7 sheet approach.

8 Q. Well, do you know what balance sheet
9 approach Mr. Hahne had before him when he was writing
10 his book?

11 A. Compare that -- very similar to what Staff
12 has in their case.

13 Q. You talked to Mr. Hahne, you saw what he was
14 looking at?

15 A. No, but I've read -- I've read his book and
16 I've read the deferred numbers on balance sheets and
17 lead-lag studies, and I think what he's describing,
18 well, when you compare the investments, is the same
19 thing as what Staff is advocating in this case.

20 Q. Okay. Now, the first quote, you --

21 MR. WOOD: Excuse me. Mr. Wrigley, could
22 you speak into the microphone -- speak up a little
23 bit in the microphone? I think some people are
24 having difficulty hearing you.

25 THE WITNESS: Okay.

0470

1 Q. The first quote you made is that the balance
2 sheet approach assumes that all non-utility or
3 non-jurisdictional assets are investor supplied, and
4 then you go on to state Mr. Hahne's conclusion that
5 that represents a fatal flaw in the typical
6 application of this approach. Do you see that?

7 A. Yes. Yes, I do.

8 Q. And can you please explain why that is a
9 fatal flaw? Assuming that assumption is made, why is
10 that a fatal flaw?

11 A. Well, basically, we -- if you look at the
12 balance sheet approach, we normally look at
13 investments of seven, eight, nine billion dollars,
14 and cash working capital comes out of that is a
15 number around about ten -- less than a hundred
16 million dollars. If we make a mistake in one small
17 account, we're going to get the wrong answer.

18 Q. My question is why is the assumption that
19 all non-utility or non-jurisdictional assets are
20 investor supplied a wrong assumption?

21 A. I don't think it says it's a wrong
22 assumption. It says if you assume it, it's a flaw.

23 Q. Okay. Well, why is it a flaw?

24 A. Because if you make one small mistake in
25 calculating -- your method of calculating investor

0471

1 supplied capital, you're going to flip the sign and
2 get the wrong result.

3 Q. That's not what Mr. Hahne is saying here,
4 though, is he? He says nothing about flipping the
5 sign, does he? He's talking about an assumption. My
6 question to you is why does that assumption represent
7 a fatal flaw?

8 A. Because if you make the wrong assumption,
9 you're going to get the wrong result.

10 Q. Well, he's saying that the balance sheet, in
11 fact, assumes that all non-utility or
12 non-jurisdictional assets are investor supplied. Why
13 is that assumption fatally flawed?

14 A. Because if they're not, we're going to get
15 the wrong result.

16 Q. Okay. Now, turning to Staff's investor
17 supplied working capital analysis, can you point to
18 me where this assumption is manifested?

19 A. I don't know. I'm not an expert on the
20 Staff methodology, and the Staff methodology changes
21 from case to case.

22 Q. But you can't -- just for the record, Your
23 Honor, Mr. Schooley's investor supplied working
24 capital analysis is in Exhibit 637, but it's also, I
25 believe, Mr. Wrigley, in your Exhibit 199, first

0472

1 column; is that right?

2 A. Yes.

3 Q. You can't point to me to anywhere on your
4 Exhibit 199, first column, or Staff's Exhibit 637
5 where the assumption that Mr. Hahne is talking about
6 is manifested; is that right?

7 A. No, but I can say that I think the results
8 are fatally flawed.

9 MR. TROTTER: Your Honor, my question was
10 very specific. I'm asking him to point to a location
11 in the exhibit.

12 Q. Can you point to me a location in the
13 exhibit?

14 A. The result that there's a \$10 million
15 negative working capital is wrong.

16 Q. And does that reflect the assumption that
17 Mr. Hahne is talking about?

18 A. I'm not certain.

19 Q. Okay. Now, the investor supplied working
20 capital approach, in fact, compares invested capital
21 to investments and thereby measures the working
22 capital provided by non-investors, doesn't it?

23 A. It provides a balance sheet approach. I
24 don't think it provides the cash working capital of
25 an electric utility.

0473

1 Q. The next quote you take from Mr. Hahne is on
2 line 16, and you state, quote, Another shortcoming of
3 this approach described in Mr. Hahne's text is that
4 if unbilled revenues are not recorded, which is
5 typically the case using this method, the cash
6 working capital requirement may be substantially
7 understated. Do you see that?

8 A. Yes.

9 JUDGE RENDAHL: Which page are you on, and
10 this is Exhibit --

11 MR. TROTTER: Page 12 of Exhibit 195-T, line
12 16 to line 18.

13 JUDGE RENDAHL: Thank you.

14 THE WITNESS: The quote was on lines 19 and
15 20, wasn't it?

16 Q. I was quoting your testimony.

17 A. Okay.

18 Q. And then you go on to quote his. Okay.

19 A. Okay.

20 Q. PacifiCorp, in fact, records unbilled
21 revenues, doesn't it?

22 A. Yes, it does.

23 Q. Please go over to 15, page 15 of your
24 rebuttal. And you have another quote from Mr. Hahne,
25 where he says, Working capital is not a measure of

0474

1 liquidity at a point in time, but the average amount
2 of investment required of investors on a continuing
3 basis over and above that invested in plant and other
4 specified rate base items. Do you see that?

5 A. Yes.

6 Q. Staff's investor supplied working capital
7 approach measures the company's average amount of
8 invested capital and compares it to average
9 investment, does it not?

10 A. No, it does not. It compares it at 13
11 points in time.

12 Q. And takes an average of those 13 points in
13 time?

14 A. Right, but there's 365 days in a year.

15 Q. So a better average would be a running daily
16 average?

17 A. No, a better way of doing it would be the
18 lead-lag study, as opposed to the shortcut approach
19 you're using.

20 Q. The company is using an average of monthly
21 averages for rate base, is it not?

22 A. Yes, it is, except for deferred taxes, which
23 is end of period, whereas Mr. Schooley's method uses
24 average, monthly averages for income taxes, also,
25 which may be a mismatch.

0475

1 Q. Are you aware that Puget Sound Energy, the
2 largest investor-owned energy utility in this state,
3 employs a balance sheet and investor supplied working
4 capital approach to measure working capital?

5 A. Yes, I am aware of that.

6 Q. Let's go back to page 13 of your rebuttal,
7 and I will be referring to your revised testimony.
8 The --

9 MR. WOOD: Excuse me, could you give the
10 page reference again?

11 MR. TROTTER: Page 13, Exhibit 195-T.

12 Q. And here you have two items on a list where
13 you're comparing or stating corrections that Mr.
14 Schooley should have made. Do you see that?

15 A. No, I'm pointing out differences between Mr.
16 Schooley's approach in the previous PacifiCorp case
17 and this case.

18 Q. I see. But you call them corrections, but
19 you're really trying to conform Mr. Schooley's
20 exhibit in this case with the prior case?

21 A. Probably the correction should have been
22 changed. That was before I changed my testimony.

23 Q. Okay. The first one, on line six, and I'm
24 going on the revised page, I'm sorry, but it refers
25 to your statement, Mr. Schooley should include

0476

1 accounts receivable offset 146 and accounts payable
2 to associated companies 234. The net result is that
3 line five was understated by 12 and a half million.
4 Do you see that?

5 A. Yes.

6 Q. The company does not pay or receive interest
7 on money in Accounts 146 and 234, does it?

8 A. No, it does not.

9 Q. The last bullet on page 13, you list some
10 accounts that were not previously included in Staff's
11 calculation in the prior docket. Do you agree that
12 -- and at the bottom of the page, you refer to
13 Account 182.2. Do you see that?

14 A. Yes, I do.

15 Q. Do you agree that that account includes
16 about \$8 million of unrecovered investment related to
17 the Trail Mountain Mine and about 11 million for the
18 Trojan nuclear plant that's been abandoned?

19 A. Yes, I do.

20 Q. And the company is accepting Staff's
21 adjustment to remove the Trail Mountain Mine
22 regulatory asset from rate base in this case;
23 correct?

24 A. Yes, we have an adjustment in my rebuttal
25 testimony doing that.

0477

1 Q. And the company does not intend to include
2 anything related to Trojan nuclear plant in this
3 case; is that true?

4 A. That's right.

5 Q. If the Trojan and Trail Mountain regulatory
6 assets are excluded from the investor supplied
7 working capital calculation, pursuant to your comment
8 on line 20 of page 13, the effect would be to
9 increase the amount of investor supplied working
10 capital; isn't that true?

11 A. That is true.

12 Q. And the effect is that those two regulatory
13 assets would effectively be put back into rate base
14 instead of excluded, as both Staff and Company agree;
15 correct?

16 A. Correct.

17 Q. On page 14, line one, you referred to
18 Account 183, preliminary survey and investigations.
19 Do you see that?

20 A. I do.

21 Q. And your adjustment to Staff exhibit
22 suggests this should be left out of the calculation
23 and be included as working capital; is that right?

24 A. I'm suggesting the last case -- all these
25 amounts were not included in the calculation in the

0478

1 last case and they are in this case.

2 Q. Could you explain what preliminary survey
3 investigations are?

4 A. It's amount of money spent on surveying land
5 before -- probably, in our case, it's to do with coal
6 mines and looking at surveying what work -- before
7 work is done.

8 Q. So it's, in other words, it's efforts that
9 are made before a project is given the green light to
10 proceed?

11 A. Yes.

12 Q. And once the project is given the green
13 light to proceed, the accumulated costs in this
14 Account 183 would be transferred to the appropriate
15 utility plant account?

16 A. Right.

17 Q. And so Account 183 is an asset account; is
18 that right?

19 A. Yes.

20 Q. If the project is not given the green light,
21 the accrued costs in Account 183 are written off to
22 an appropriate expense account; is that right?

23 A. Yes.

24 Q. I'd like to refer you to Exhibit 199, PMW-9.
25 And we already established that the first column of

0479

1 figures under average balance, average of monthly
2 averages, that is taken from Staff's Exhibit 637?

3 A. Yes, we have -- yes, we have established
4 that.

5 Q. Okay. And then you compare it to
6 adjustments made -- or the working capital exhibit
7 Staff filed in a prior case and then you have a
8 variance column; is that right?

9 A. Yes.

10 Q. And by revised variance, that just means
11 after you've made certain changes from what you've
12 initially filed, this is your final variance column?

13 A. Yes.

14 Q. Okay. And I'd like to refer you to page
15 one, line 27. You're showing a variance of 10.299
16 million, and then, on line 30, a positive variance of
17 1.276 million; is that right?

18 A. That is correct.

19 Q. But these differences only reflect a
20 transfer of those amounts to non-operating
21 investments; is that correct?

22 A. As shown in the footnote, yes.

23 Q. And those -- if you go to page two, those
24 same amounts show up on lines 82 and 83; is that
25 correct?

0480

1 A. Yes, they do.

2 Q. So there's no change to the bottom line; is
3 that right?

4 A. No, there isn't.

5 Q. Let's go back to page one, line 38. You
6 initially had a variance of 11.8 million. That's --
7 that has been eliminated?

8 A. Yes.

9 Q. Therefore, you agreed to Staff's subtraction
10 of almost 230 million for non-utility, other
11 regulatory assets; is that right?

12 A. I think -- isn't the total regulatory assets
13 on line 41 on the next page?

14 Q. I was focusing on the amount.

15 A. You're focusing on the pension expense?

16 Q. Yes.

17 A. Yes.

18 Q. Okay. Turn to page two, line 73. Shouldn't
19 you have taken that same \$11.846 million figure off,
20 as well?

21 A. Yes, I should have done.

22 Q. Let's go -- while we're on page two, let's
23 go to line 47.

24 JUDGE RENDAHL: Just to clarify, did you
25 just state you should have removed that or it has

0481

1 been removed?

2 THE WITNESS: No, I should have removed it.
3 There's two entries for \$11,846,302 between -- and I
4 removed one, but not the second.

5 JUDGE RENDAHL: Thank you.

6 Q. On page two, line 47, you show a variance of
7 approximately 8.1 million. Do you see that?

8 A. Yes.

9 Q. Would you agree, subject to your check, that
10 that -- let's move on to lines 48 and 51. You show a
11 variance on line 48 of 29.1 million and on line 51 of
12 2.5 million. Do you see that?

13 A. Yes, I do.

14 Q. And later on the next page, on lines 93 and
15 94, those same amounts show up as being transferred
16 to another part of the calculation; is that right?

17 A. Yes, they do.

18 Q. Those changes have no effect on the bottom
19 line result, do they?

20 A. No, just the way Mr. Schooley laid them out
21 in the two cases.

22 Q. But the bottom line number is unchanged;
23 isn't that right?

24 A. Yes.

25 Q. Staying on page three, line 87, you removed

0482

1 Account 136, temporary investments, and on line 89,
2 you removed Accounts 132 through 134, other
3 investments and special funds. Do you see that?

4 A. Yes, I do.

5 Q. PacifiCorp realizes interest dividends or
6 earnings from these accounts; is that right?

7 A. Yes, they do, and it reflects that they
8 weren't removed by Mr. Schooley last time.

9 Q. Was your answer yes?

10 A. Yes.

11 Q. Let's go back to your testimony, rebuttal,
12 page 11. On line 12, you say, The purpose of a
13 working capital adjustment for regulated purposes is
14 to calculate the cash working capital required to
15 cover the time between payment for services and
16 receipt of revenue. Do you see that?

17 A. Yes.

18 Q. And that testimony is based on a quote from
19 your Hahne book, is it not?

20 A. It may be, but I believe that is a good
21 definition.

22 Q. Let me give you a quote from Mr. Hahne, ask
23 you to accept, subject to check, that he said, quote,
24 The average amount of capital provided by investors
25 over and above the investment in plant and other

0483

1 specifically measured rate base items to bridge the
2 gap between the time expenditures that are required
3 to provide service and the time collections are
4 received for such services.

5 A. I've got Mr. Hahne's -- the chapter. Do you
6 have the page number that's on?

7 Q. Just a moment. If you could accept that
8 subject to check, and we'll get you the page number
9 at the break.

10 MR. WOOD: If you're going to ask questions
11 about that, or even ask him subject to check, I would
12 ask that he be asked these questions after he's had a
13 chance to look at the page.

14 MR. TROTTER: That's fine. I'm moving on.
15 I just want him to accept that as what Mr. Hahne
16 said, but I will provide you the page and line number
17 momentarily.

18 THE WITNESS: Okay. Subject to check, I'll
19 --

20 Q. Okay. Is the purpose of the lead-lag study
21 to measure the timing of cash receipts compared to
22 cash payments?

23 A. Yes, it is.

24 Q. Is it correct that Pacific's tariffs include
25 federal corporate income taxes -- include revenues to

0484

1 enable PacifiCorp to pay federal corporate income
2 taxes at the rate of 35 percent?

3 A. Yeah, and they're included in the payroll in
4 the expense side calculations.

5 Q. Your answer is yes, with that explanation?

6 A. Yeah, yes.

7 Q. And each month a customer's payment would
8 include an increment for that cost; would that be
9 true?

10 A. Yes, it does.

11 Q. PacifiCorp pays FIT to the Internal Revenue
12 Service quarterly, with an annual extension payment;
13 is that right?

14 A. Now, wait, are you talking about the federal
15 income tax we pay or the federal income tax of
16 employees?

17 Q. The federal income tax that PacifiCorp pays.

18 A. Not related to payroll.

19 Q. That's right.

20 A. Right. Federal income taxes we pay, there's
21 a different lag on that compared to the payroll lag,
22 the taxes on employees. One pays -- if you look at
23 one of the exhibits in here, when we collect income
24 tax from employees, that's not paid quarterly.

25 Q. Okay. Wait. I think we're off track here.

0485

1 I asked you whether the customers, in their bills,
2 when they pay their bills to you, if there's an
3 increment in there from which the company gets
4 revenue to pay FIT?

5 A. Yes.

6 Q. Okay. And the company actually pays FIT,
7 federal corporate income taxes to the IRS quarterly
8 with an annual extension payment; is that correct?

9 A. Yes.

10 Q. Okay. So let's take a simple example.
11 Let's assume in April, the beginning of the fiscal
12 year, a PacifiCorp customer receives electric service
13 from the company, and at the beginning of May, a bill
14 is sent, and by the end of May, that bill is paid.
15 Is that a fair example?

16 A. Let me just review fiscal -- the fiscal
17 income tax lag. Could you give me the example again,
18 please?

19 Q. Okay. Let's do it this way. The company
20 receives a payment for utility services rendered in
21 early April, which includes an increment to pay
22 federal income tax at a 35 percent rate. That's
23 received by the company -- excuse me, the billing is
24 in early April, the payment is received in early May.
25 I'm sorry, I'm off track.

0486

1 Okay. In April, the company renders a bill
2 to the customer. I'm sorry, Your Honor. Let's start
3 over.

4 In April, the company provides service to
5 the customer. Do you have that assumption in mind?

6 A. So through the month of April, we're
7 providing service?

8 Q. Yes. And at the beginning of May, you send
9 a bill for that service?

10 A. First third of May, yes.

11 Q. Approximately, okay. And by the end of May,
12 that bill is paid?

13 A. Yes.

14 Q. The company's cash working capital
15 calculation is based on a lead-lag study, which uses
16 a test period ending in March of 2003; is that
17 correct?

18 A. Yes, it is.

19 Q. Yet the federal income tax expense used in
20 the calculation is based on taxes paid for the fiscal
21 year 2001; is that correct?

22 A. That's right.

23 Q. And can you explain why?

24 A. We didn't use the fiscal year '03 data
25 because the tax returns were not complete as of

0487

1 November 2003, when we performed the study. Fiscal
2 year 2002, the company had a net operating loss and,
3 therefore, it would not have been a representative
4 year, so we decided to use 2001 as the most
5 representative tax year.

6 Q. If a tax year shows a net loss and no taxes
7 are due, are those losses carried forward to reduce
8 future taxes?

9 A. Yes, they are.

10 Q. So PacifiCorp may pay reduced taxes for
11 fiscal 2005 or 2006 because of tax losses in prior
12 years?

13 A. They might.

14 Q. Would you accept, subject to your check,
15 that the lead-lag study the company performed shows a
16 payroll lag of 13.56 days?

17 A. Yes, it does.

18 Q. And does that mean that, on average, the
19 company is paying its employees 13 and a half days
20 after the employees do the work they're paid to do?

21 A. Yes.

22 Q. So does that mean you're paying employees
23 twice a month?

24 A. Yes, we are.

25 Q. And that lag was applied to a wage expense

0488

1 of around 404 million, of which Washington was
2 allocated 31.7 million?

3 A. I believe here the Washington amount is 430
4 million of a total --

5 Q. Four hundred and three or --

6 A. Four hundred and thirty --

7 Q. Okay.

8 A. -- million, with a total expense of just
9 short of \$8 million.

10 Q. Our figures show Washington was allocated
11 31.2.

12 A. Oh, sorry. I'm giving you the dollar day
13 amount, as opposed to the amount. You're correct.
14 The amount is \$31.7 million of a total expense of
15 \$221 million.

16 Q. Okay. And if you could refer to Exhibits
17 206 and 207?

18 A. Sorry.

19 Q. These are two data requests, 373 and 374.

20 A. These are the two data requests you received
21 on --

22 Q. They just came very recently.

23 A. Okay.

24 Q. We discussed earlier that the company used a
25 2003 lead-lag study, but it applied updated expense

0489

1 data to that lead-lag study, did it not?

2 A. For this test period, yes, they did.

3 Q. Okay. And just for the record, that's your
4 adjustment 8.1?

5 A. Yes, it is. That's adjustment 8.1 in
6 Exhibit PMW-3.

7 JUDGE RENDAHL: And when you refer to PMW-3,
8 that's marked as exhibit -- or admitted as Exhibit
9 193?

10 THE WITNESS: Yes, it is.

11 Q. Taking a look at Exhibit 206, just as an
12 example, the last -- page one, the last section for
13 incentive pay, those payments are made once per year,
14 on June 2nd; is that right?

15 A. That is correct.

16 Q. I'd like to refer you to Exhibit 208.

17 A. That's the response to?

18 Q. ICNU Data Request 7.8. And this DR asked
19 the company to list its projects by year installed,
20 retirement year, and whether it was originally a
21 Pacific Power and Light project, a Utah Power and
22 Light project, or a generating unit acquired after
23 the merger; is that right?

24 A. That is right.

25 Q. If we go to page three of the exhibit, the

0490

1 list starts, and if we see a P, that means it's a
2 Pacific Power and Light project pre-merger; if it's a
3 U, it's a Utah Power and Light pre-merger; and if
4 it's an AA, it was acquired after the merger?

5 A. Yes.

6 Q. So looking down, we see the double As, and
7 we have Currant Creek, Gadsby, West Valley, Craig,
8 Hayden, Cholla and Hermiston, and then Foote Creek
9 and Camas. Do you see that?

10 A. I do.

11 Q. So if the Commission wanted to understand
12 which projects were initially Pacific Power and Light
13 and which were initially Utah Power and which were
14 acquired after, this would be the good source?

15 A. It would be.

16 MR. TROTTER: Your Honor, I move admission
17 of Exhibits 200 through 208.

18 JUDGE RENDAHL: Is there any objection to
19 those coming into the record? Hearing no objection,
20 what's been marked as Exhibits 200 through 208 will
21 be admitted.

22 MR. TROTTER: That completes my questioning.
23 Thank you, Mr. Wrigley.

24 JUDGE RENDAHL: Thank you. Mr. ffitch.

25 MR. FFITCH: Your Honor, I would just repeat

0491

1 what we indicated earlier, that we have no
2 cross-examination for Mr. Wrigley, but we would like
3 to offer Exhibits 209 through 212 for Public Counsel.

4 JUDGE RENDAHL: All right. Is there any
5 objection to admitting what's been marked as Exhibits
6 209 through Exhibit 212?

7 MR. WOOD: No objection.

8 JUDGE RENDAHL: If there's no objection,
9 those exhibits will be admitted. Ms. Davison.

10 MR. TROTTER: Just, if I could, Your Honor,
11 I can give the page reference to my quote.

12 JUDGE RENDAHL: Oh, please go ahead.

13 MR. TROTTER: It's Section 501, page 6.2 --
14 oh, excuse me, page 5-2.

15 JUDGE RENDAHL: Can you repeat that number?

16 MR. TROTTER: Chapter Five, Section 5.01,
17 page 5-2, top paragraph.

18 JUDGE RENDAHL: Okay. Ms. Davison.

19 MS. DAVISON: Thank you, Your Honor. Before
20 I get started, pursuant to a stipulation with
21 Counsel, I'd like to move the admission of Exhibits
22 213 through 223.

23 MR. WOOD: No objection.

24 JUDGE RENDAHL: And there's no objection, so
25 those exhibits will be admitted. So that's Exhibits

0492

1 213 through 223?

2 MS. DAVISON: Yes, Your Honor.

3 JUDGE RENDAHL: Thank you. And if you can
4 move your mic a little bit closer and remember you're
5 in Washington, not Oregon, then --

6 MS. DAVISON: That's right, there's no
7 back-feed. Okay. I will try to speak very clearly
8 into the microphone, although I've never been accused
9 of having a soft voice, so I will do my best.

10

11 C R O S S - E X A M I N A T I O N

12 BY MS. DAVISON:

13 Q. Mr. Wrigley, can you explain to all of us
14 the various test years that PacifiCorp has used in
15 this case?

16 A. Yes, I can. The historic test year is the
17 12 months ending September 2004. Then, in the main,
18 we have walked forward known and measurable expenses
19 through the 12 months ending September 2005, except
20 that pensions and benefits are walked forward to the
21 12 months ending March 2006. In the power costs and
22 rate base, production-related rate base and expenses,
23 they're walked forward to the rate year, which is the
24 12 months ended March 2007, and then ratioed back to
25 the historic test year using the production factor.

0493

1 Q. So from my simple way of thinking, the
2 company has, in effect, three different test years in
3 play in this case; is that correct?

4 A. I don't know. The production factor
5 adjustment, where we take 2007 loads and ratioing
6 them back to 2004, I don't know if that's a new test
7 year or not. We're applying rates to 2004 loads. So
8 in the main, all we're doing is adjusting to that
9 September 2004 data.

10 Q. But isn't it true that you're using the 2007
11 test year for power costs in an attempt to capture
12 those future power costs that are coming up onto your
13 system, such as Currant Creek?

14 A. Yes, because it will be up and using the
15 rate, yeah.

16 Q. I'd like to go back to a topic that you
17 covered with Staff, EEI. And let me make sure I
18 understand this correctly. The company is requesting
19 recovery of 75 percent of EEI activity costs; is that
20 correct?

21 A. Yes, we are.

22 Q. And can you explain the basis of why you
23 picked 25 percent not to seek recovery of?

24 A. Well, 25 percent is the norm, it's work of
25 the jurisdictions, and it's the amount identified by

0494

1 EEI as the amount they spent on lobbying, and
2 obviously it should not be recovering from
3 ratepayers.

4 Q. You said lobbying; correct?

5 A. I think that's what they describe it as.

6 Q. I think they call it legislative advocacy,
7 lobbying?

8 A. Yes.

9 Q. Okay. So in contrast, Mr. Ward went through
10 and utilized the NARUC, the EEI reporting
11 requirements for NARUC in which the specific
12 activities were broken down, and isn't it correct
13 that Mr. Ward went through that making an assessment
14 of what he thought should or should not be recovered
15 by the company?

16 A. He did, and as I explained to Mr. Trotter, I
17 disagree with those, the things he disallowed.

18 Q. I understand that, but could you turn to the
19 work papers that you weretalking with Mr. Trotter
20 with earlier, and that would be the work papers for
21 Exhibit 622 for Mr. Ward. And if you turn to the
22 back, where you had the EEI audit definitions of
23 accounts used for NARUC reporting requirements, if
24 you could get that?

25 MR. WOOD: Please identify that exhibit

0495

1 again.

2 MR. TROTTER: It's not an exhibit.

3 MS. DAVISON: It's work papers to Exhibit
4 622.

5 JUDGE RENDAHL: Is there a reason why this
6 can't be made an exhibit, since it's in the record
7 now for discussion?

8 MS. DAVISON: I think that's a very good
9 idea. I think we should make copies of it and make
10 it an exhibit.

11 JUDGE RENDAHL: Is there any objection to
12 making the work papers -- how many pages are we
13 talking about?

14 THE WITNESS: We're talking about the Edison
15 Electric Institute schedule of expenses, '04, '03,
16 and then the notes. I believe it's --

17 JUDGE RENDAHL: It doesn't look like it's
18 that many pages. Maybe ten?

19 THE WITNESS: No, less than ten pages.

20 JUDGE RENDAHL: Less than ten pages. Okay.
21 Well, we'll make sure that those get copied and put
22 into the record. Would those be for Mr. Wrigley or
23 for Mr. Ward?

24 MS. DAVISON: Why don't we make it a cross
25 exhibit for Mr. Wrigley. That might be the easiest

0496

1 thing to do.

2 JUDGE RENDAHL: All right. So it would be
3 marked as Exhibit 224, and these would be Christian
4 Ward work papers on EEI. Is it possible to have
5 those copied and go to another topic and then come
6 back to them?

7 MS. DAVISON: I think that would actually be
8 very helpful, so --

9 JUDGE RENDAHL: All right. Well, let's be
10 off the record for a moment.

11 (Recess taken.)

12 JUDGE RENDAHL: Let's get back on the
13 record. While we were off the record, I made copies
14 of what's now marked as Exhibit 224 to Mr. Wrigley's
15 exhibits, and it is marked as, if I can get to the
16 right page here, Christian Ward's Work Papers on EEI.

17 And also, Mr. Wood distributed -- or Mr.
18 Keyes distributed the additional pages for Exhibit 20
19 for Mr. MacRitchie, the first few pages of that
20 Oregon order, to create a complete copy for the
21 record.

22 So with that, those are our housekeeping
23 matters. Thanks for the time, and now let's go
24 forward again, Ms. Davison, with your questions.

25 MS. DAVISON: Thank you, Your Honor.

0497

1 Q. Mr. Wrigley, before the break, I think that
2 we established that you had removed 25 percent of the
3 EEI dues, and Mr. Ward removed approximately 43
4 percent; is that correct?

5 A. Yes.

6 Q. If you turn to page -- it's the fifth page
7 of Exhibit 224 that has Roman Numeral VII-1 at the
8 bottom. Do you see that?

9 A. I do.

10 Q. And can we agree that Mr. Ward, of his 43
11 percent, that 23 percent is a removal of the
12 legislative advocacy?

13 A. Yes, we can.

14 Q. And I assume, from your previous answer,
15 that you believe that to be an appropriate
16 adjustment?

17 A. Yes.

18 Q. And then Mr. Ward removed five percent
19 regarding legislative policy research. Do you
20 believe that to be an appropriate adjustment?

21 A. No, I don't.

22 Q. And can you explain why?

23 A. If you look at the second paragraph, it says
24 that this account shall include the cost of
25 researching and responding to all inquiries regarding

0498

1 the potential impact, proper implementation or the
2 effect of proposed or potential legislation, but
3 shall not include cost of legislative advocacy. And
4 I think it's right that we should know what the
5 effects of the legal changes are on the electric
6 industry.

7 Q. But in reality, isn't this category really
8 research to support legislative activities?

9 A. I don't know what it is. I just know the
10 definition.

11 Q. If you turn the page, you see advertising
12 which is approximately two percent of the reduction
13 that Mr. Ward is proposing. Do you see that item
14 number five indicates that that is to promote
15 consumption, that would be electric use consumption?

16 A. Yes, I do.

17 Q. And do you see that number six is called
18 institutional, and it's designed to enhance the image
19 of EEI or the utility industry?

20 A. Yes, I do.

21 Q. And then we have the next item. There's
22 approximately a five percent reduction attributed by
23 Mr. Ward to marketing and demand side management, and
24 if you turn the page to the next page -- two pages
25 back, you see the -- that would be the number page

0499

1 eight of the document, if it was numbered, marked
2 Roman Numeral VII-4. Do you see that seven percent
3 of Mr. Ward's reduction is attributed to public
4 relations?

5 A. Yes, I do.

6 Q. And you see that that is relating to
7 goodwill between EEI and its member companies,
8 improving its relationship with publics, advancing
9 EEI and the members' position with media; is that
10 correct?

11 A. Yes, it is.

12 MS. DAVISON: Your Honor, I believe that
13 this exhibit is already in the record, so I don't
14 need to move its admission; is that correct?

15 JUDGE RENDAHL: It has not been admitted,
16 but we agreed to mark it and put it in the record.
17 Is there any objection to including this -- admitting
18 this exhibit in the record? All right. It will be
19 so admitted.

20 MS. DAVISON: Thank you.

21 Q. Mr. Wrigley, could you turn to your Exhibit
22 221?

23 MR. WOOD: As a clarification, I believe
24 this is ICNU's cross-exam exhibit, not the witness's
25 exhibit.

0500

1 MS. DAVISON: Oh, I'm sorry. Apologize.

2 Q. Do you have that?

3 A. 221 is the answer to which data request?

4 MR. KEYES: 184.

5 JUDGE RENDAHL: It's identified as the

6 response to Staff Data Request 184.

7 THE WITNESS: Yes, I do.

8 Q. And Mr. Wrigley, did you prepare the

9 response to this data request?

10 A. Yes, I did.

11 Q. Do you have any corrections to this

12 response?

13 A. Yes, I do. The data request asks for cost
14 assigned situs, and the amounts described total \$7.5
15 million, our assigned situs through six states. The
16 description, the final paragraph is incorrect. These
17 are state regulatory commission expenses and not
18 outside legal and consulting fees.

19 Q. Thank you. So to make the exhibit accurate,
20 parties should just X out that last paragraph; is
21 that correct?

22 A. Yes, they should.

23 Q. Thank you. As a preliminary matter, I
24 believe your attorney stated earlier that you will be
25 providing supplemental testimony to address certain

0501

1 issues regarding MEHC; is that correct?

2 A. Yes, it is.

3 MS. DAVISON: And Your Honor, I just want to
4 note that I will be not asking any MEHC-related
5 questions of Mr. Wrigley today, but reserve the right
6 to ask all questions regarding MEHC at a later date.

7 JUDGE RENDAHL: That's fine.

8 Q. I would like to turn to the topic of
9 Regional Transmission Organizations, known as RTOs.
10 Is it correct that PacifiCorp is requesting approval
11 of its costs related to the formation of an RTO
12 commonly referred to as Grid West?

13 A. It would be requesting the recovery of the
14 expenses we've spent in the 12 months ending
15 September 2004.

16 Q. And are those expenses related to the
17 development of Grid West?

18 A. They're related to transmission work --
19 transmission development which we identified as work
20 on Grid West.

21 Q. Thank you. In your rebuttal testimony at
22 page 24, which is Exhibit 195-T, on lines nine
23 through 14, you state that you support recovery of
24 PacifiCorp's RTO costs because transmission services
25 are necessary to deliver power from generating

0502

1 resources to the company's distribution system. Is
2 that correct?

3 A. Yes, I do.

4 Q. Is an RTO necessary to deliver power from
5 PacifiCorp's generating resources to Washington's
6 retail customers?

7 A. No, it's not.

8 Q. Is it correct that you assert that
9 PacifiCorp should be permitted to recover its RTO
10 costs because the company needs to comply with FERC
11 requirements? And I would refer you to page 25,
12 lines 12 through 13.

13 A. Yes, that is a correct quote.

14 Q. And these requirements that you're referring
15 to, these FERC requirements include FERC's Order 2000
16 regarding the formation of RTOs; is that correct?

17 A. Yes, it is.

18 Q. Are you aware that FERC has found that the
19 Grid West proposal does not have to satisfy the
20 requirements of Order 2000?

21 A. I'm not aware of that, but I would accept
22 it, subject to check.

23 Q. And I would refer you to a Bonneville Power
24 Administration order, which is 112 FERC, Paragraph
25 61012 for verification of that.

0503

1 JUDGE RENDAHL: Is that Paragraph 61012?

2 MS. DAVISON: Yes, Your Honor.

3 Q. Your rebuttal testimony, starting on page
4 24, line 23, states that PacifiCorp remains
5 optimistic that some form of an RTO will be formed in
6 the Pacific Northwest. And my question is what's the
7 basis for your optimism?

8 A. Just bear with me one second. Basically,
9 we're continuing to work with other utilities, and I
10 believe those utilities are PacifiCorp, Idaho Power,
11 Northwestern Energy, PGE, Sierra Pacific, Nevada
12 Power, British Columbia Transmission Corporation and
13 Avista, and we're still looking at the technical
14 feasibility of developing an RTO in the West.

15 Q. Conspicuously missing from your list would
16 be BPA and Puget Sound Energy; is that correct?

17 A. They were not included in the list.

18 Q. And isn't it correct that BPA owns
19 approximately three-quarters of the transmission
20 resources in the Northwest?

21 A. Subject to check, I accept that.

22 Q. And isn't it correct that a Pacific
23 Northwest RTO would be more likely to be an
24 operational success if BPA is included in that RTO?

25 A. I don't know whether it would or not.

0504

1 Q. Well, wouldn't the fact that one entity owns
2 75 percent of the transmission resources lead one to
3 that conclusion?

4 A. Well, if all the other utilities reduced the
5 amount of pancaking, it would make a step towards a
6 regional RTO easier.

7 Q. Has PacifiCorp included any evidence in this
8 proceeding that demonstrates that the formation of a
9 Grid West would improve transmission reliability as
10 compared to your current transmission system?

11 A. I don't believe we have.

12 Q. Is it possible that Grid West may not become
13 operational?

14 A. It is possible.

15 Q. Would you consider the operation or the
16 actual formation of Grid West to be a known and
17 measurable for this rate case test period?

18 A. No, but I believe the amount of money we
19 spent on transmission planning will continue into the
20 foreseeable future whether or not there's a regional
21 RTO or not.

22 I've been in the regulation department for
23 over ten years, and PacifiCorp's been working on RTOs
24 and transmission planning all that time. Started
25 with Indigo, then generic RTOs, Grid West. We're

0505

1 going to be spending this money whether it's Grid
2 West or not. As we discussed yesterday, when we
3 looked at all the transmission lines, there are many
4 places where PacifiCorp doesn't own transmission and
5 relies on other utilities and that there is need to
6 develop transmission, and we'll continue to spend
7 this money.

8 Q. But don't you have other accounts that -- in
9 which you actually book expenses related to
10 transmission planning besides your activities on Grid
11 West?

12 A. Right, but they will, in the future, embrace
13 these amounts if Grid West goes away.

14 Q. Turning to what is known as the WAPA issue,
15 Western Area Power Administration, if you turn to
16 your rebuttal testimony at page 27, lines 15 through
17 18, is it correct that you recommend against imputing
18 revenue for the WAPA wheeling contract?

19 A. Yes, I do.

20 Q. Is the WAPA wheeling contract an 80-year
21 fixed rate contract that does not include any
22 significant escalation clauses?

23 A. I'm not certain of the length, but I know
24 the contract's been -- we've been running for over 40
25 years, and I would accept, subject to check, that it

0506

1 would run for another 40 years.

2 Q. And if PacifiCorp was imprudent 40 years
3 ago, approximately, in signing, executing the WAPA
4 wheeling contract, would you agree that it would be
5 appropriate to impute additional revenues for this
6 contract?

7 A. No, I would think you would want to do the
8 same as this Commission did with Colstrip Three,
9 disallow everything and go to a market based
10 approach, as proposed in my testimony on page 28.

11 Q. On page 27, lines 21 through 22 of your
12 rebuttal testimony, you suggest that other state
13 regulatory agencies have, quote, taken exception with
14 the WAPA wheeling contract; correct?

15 A. I think what I say is that no utility
16 regulated took exception in the first 21 years.

17 Q. Right, but isn't it correct that both the
18 Utah and Oregon Commissions have ordered PacifiCorp
19 to impute additional revenues for the WAPA wheeling
20 contract?

21 A. Not at the present time.

22 Q. They have in the past, though?

23 A. But in Utah, in the 2002 case, they ordered
24 us to impute revenues. We included that in the 2003
25 case. And then, in the 2004 case, we did not impute

0507

1 the revenues. So there are no revenues imputed in
2 Utah at the present time, and similar in Oregon.
3 There are no revenues imputed to WAPA in Oregon rates
4 at this time.

5 Q. I understand that, but my question was
6 haven't commissions in the past imputed revenue for
7 WAPA?

8 A. For a short period of time, yes.

9 Q. And you're aware that Mr. Falkenberg has
10 calculated a WAPA wheeling adjustment that is based
11 on a PacifiCorp response to ICNU Data Request 2.26,
12 which is marked as Exhibit 502?

13 A. Yes, I am.

14 Q. And Mr. Falkenberg is recommending a
15 \$240,383 adjustment on a Washington basis; is that
16 correct?

17 A. Yes.

18 Q. Did you review his calculation of that
19 number?

20 A. No, I did not.

21 Q. So you don't know whether he performed any
22 mathematical errors or not in that calculation?

23 A. I think the error is in proportion to
24 calculations I've seen in other states, so it seemed
25 the correct amount.

0508

1 Q. Thank you. Would you turn to page 29 of
2 your rebuttal testimony, please? And you have a Q&A
3 regarding Currant Creek, in which you state that
4 Currant Creek will be used and useful during the rate
5 effective period.

6 Is it correct that Currant Creek is not
7 currently online?

8 A. No, it's expected to be online in the next
9 -- within a month.

10 MS. DAVISON: I have no further questions,
11 Your Honor.

12 JUDGE RENDAHL: Okay. Thank you. Is there
13 any redirect?

14 MR. WOOD: Just a little, Your Honor.

15

16 R E D I R E C T E X A M I N A T I O N

17 BY MR. WOOD:

18 Q. Mr. Wrigley, you made some corrections, I
19 believe, to your rebuttal testimony at the beginning
20 of your -- when you first took the stand. Is there
21 another -- is there another mathematical error you
22 need to correct?

23 A. Yes, on page six of my rebuttal testimony,
24 Mr. Ward was kind enough to point out I made a
25 subtraction error, so on line -- page six, line 22,

0509

1 it should say \$176,000. And I apologize. I
2 shouldn't do math on the fly.

3 Q. You were asked questions by Mr. Trotter
4 about whether the largest utility in Washington,
5 Puget Sound Energy, uses a balance sheet approach to
6 working capital -- cash working capital computations.
7 Remember those questions?

8 A. Yes, I do.

9 Q. Did Puget Sound Energy, in a previous case,
10 attempt to get approval for use of a lead-lag study?

11 A. Yes, they did.

12 Q. And were they successful?

13 A. No, they weren't.

14 Q. And is it your experience that when we
15 referred to what the utilities do, that the failure
16 to use the Staff's preferred method has, in your
17 experience, caused working capital computations to be
18 opposed?

19 A. Yes, it has.

20 Q. And to put this in perspective, where the
21 Staff influence may not be so strong, what is the
22 method used in every other state in which the company
23 provides service?

24 A. We use a lead-lag study in all the other
25 five states.

0510

1 Q. And it's accepted in all of the five states?

2 A. Yes, it is.

3 MR. WOOD: Thank you. I have no other
4 questions.

5 JUDGE RENDAHL: Any redirect -- any
6 re-cross, excuse me, based on that? Are there any
7 questions for this witness from the bench?
8 Commissioner Jones.

9

10 E X A M I N A T I O N

11 BY COMMISSIONER JONES:

12 Q. I'd like to go back to the -- I don't know,
13 what page of your testimony is the capital expense,
14 the -- where we got into that issue with Mr. Trotter
15 in the beginning? Flotation costs.

16 MR. TROTTER: Yes, seven.

17 THE WITNESS: It's in my rebuttal testimony.

18 Q. Yeah, in your rebuttal testimony.

19 MR. TROTTER: Twenty-one.

20 COMMISSIONER JONES: Twenty-one, thank you.

21 JUDGE RENDAHL: So what page are we talking?

22 COMMISSIONER JONES: Page 21 through 23 of
23 the rebuttal testimony.

24 Q. I'm having a hard time understanding the
25 historical context of this deferral account or how it

0511

1 is presently being accounted for, so could you just
2 confirm that this primarily relates to bond issuance
3 costs that -- bond issuance costs that had been
4 accumulating over a period of a number of years, 20,
5 30?

6 A. Yes, the legal, accounting and underwriting.

7 MR. WOOD: Did the witness mean to say
8 equity cost, rather than bond cost?

9 THE WITNESS: Sorry. Common equity. Sorry,
10 they're related to common equity.

11 Q. Do you have any breakdown -- what's the
12 total amount that has been accumulating in this
13 account?

14 A. It's the \$41 million shown on line 13.

15 Q. Okay. And how much of that is related to
16 equity and how much would be related to bond issuance
17 expense?

18 A. It's all related to equity.

19 Q. All related to equity. So on page 23 of
20 your testimony, in response to a question, when you
21 say capital expense is akin to bond issuance expense,
22 both represent the cost of obtaining cost to finance
23 the utility rate base bond issuance and et cetera.
24 You are just referring to bond issuance expense as a
25 comparison point?

0512

1 A. Right, basically, when you issue a bond, you
2 know the value of it, and then you take the flotation
3 cost and amortize it over the length of bond, and
4 that's what's shown when we calculate the cost of
5 debt.

6 Q. Could you go to the first page -- I think
7 it's the first page of your -- pages one and two of
8 your rebuttal testimony, where you talk about the
9 decrease in 6.654 million of the amount the company
10 is requesting in revenue requirement from the time of
11 filing to your rebuttal testimony.

12 Can you be a little clearer in terms of what
13 reasons? I understand you talk about the data has
14 been further refined, actual versus forecasted, the
15 company reached an agreement with ICNU regarding net
16 power costs. Can you provide for us some breakdown
17 of that 6.654?

18 A. If you turn to my Exhibit PMW-7.

19 Q. Dash seven, okay.

20 JUDGE RENDAHL: And that's Exhibit 197.

21 Q. 197, okay.

22 A. You can see each of the adjustments. If
23 you'd like, I can describe the major adjustments
24 we've made since my direct case.

25 Q. Can you just help me with this a little bit?

0513

1 A. Sure. If you look at line six, there's an
2 estimated ROE impact. So the first major -- and a
3 hundred basis points is approximately five million.
4 So in adjustment number 3.8, where Mr. Griffith
5 updated his revenues, we reduced our revenue
6 requirement by approximately \$1.5 million.

7 Q. Okay.

8 A. The next major change is the settlement we
9 reached with ICNU on net power costs, which is on
10 page two of three.

11 Q. That's on page what?

12 A. Page two of three of that exhibit.

13 Q. Okay.

14 A. It's the column marked 5.1A, net power cost
15 settlement.

16 Q. Oh, there it is, yes.

17 A. That basically reduces revenue requirement
18 by 2.5 million. Then, in the opposite direction,
19 there's the hydro deferral recovery. My original
20 case, we didn't include this as part of base rates.
21 Staff suggested that we should take the amount into
22 hydro deferral and amortize it over three years. We
23 probably disagree with Staff the amount of the hydro
24 deferral, but we're agreeing to the accounting, so I
25 took the amount in the account and amortized it over

0514

1 three years, and that increases revenue requirement
2 by \$3 million.

3 The next major change is Column 8-10, the
4 production factor rate base. This was the first time
5 PacifiCorp had used the production factor. I believe
6 we accurately modeled this on the net power cost
7 side, but in my original case, we didn't accurately
8 model it on the rate base side. So I accept Mr.
9 Schooley's adjustment, which would reduce revenue
10 requirement by approximately three and a quarter
11 million dollars.

12 JUDGE RENDAHL: Mr. Wrigley, just so that
13 we're clear when we're looking at this exhibit, the
14 numbers for revenue requirement you're discussing
15 aren't identified on this page, but they flow through
16 from --

17 THE WITNESS: They flow from these numbers,
18 yes.

19 JUDGE RENDAHL: Thank you. I just wanted to
20 be clear on that.

21 THE WITNESS: And then the final major
22 adjustment is on the third -- page three of three,
23 remove transition plant. We had an early out program
24 in the year 2000. We capitalized the cost of that,
25 amortized it over five years. It won't be in effect

0515

1 during the rate effective period, so we removed that
2 from rates.

3 Q. And which opposing party was suggesting
4 that?

5 A. That was Mr. Schooley.

6 Q. Was that Mr. Schooley?

7 A. Mr. Schooley and one of the other parties.
8 I think -- I believe Public Counsel also suggested a
9 similar adjustment, but we agreed on Mr. Schooley's
10 calculation, and that's, in effect, of our revenue
11 requirement -- reducing the revenue requirement by
12 1.5 million.

13 So those are the major changes since my --
14 between my direct case and my rebuttal case.

15 Q. And that was in about, what, a six-month
16 period? You filed the rate case on May 5th, and you
17 filed your rebuttal when?

18 A. Early December.

19 Q. So about seven months?

20 A. Yes.

21 Q. Six, seven months. Can we expect any more
22 changes in this revenue requirement number based on
23 the types of adjustments that we've heard today, for
24 example, refinement of the data forecasted to actual?

25 A. I don't believe so. The only thing which

0516

1 would have changed it is that, as you know, we're
2 requesting amortization of the hydro deferral, and
3 that's changing on a monthly basis.

4 Q. Sure.

5 A. But other than that, I don't expect any more
6 refinements.

7 Q. I want to follow-up on the previous issue of
8 flotation costs, because I forgot to confirm one
9 point. You would not object or you proposed that if
10 the Commission does want to not adopt your
11 recommendation, but adjust the ROE, I just want to
12 confirm that you did suggest an increase in the basis
13 points?

14 A. I did, I did suggest.

15 Q. And how many basis points is that again?

16 A. Thirteen basis points.

17 Q. And on what do you base that change in basis
18 points? How did you calculate that?

19 A. I believe that our assumption is we got 13
20 basis points, we would take the effect of that and
21 start amortizing the balance and recover it over a
22 reasonable amount of time.

23 Q. Okay. Regarding RTO expenses that you deal
24 with, that Ms. Davison was addressing, pages 23 to 25
25 of your testimony, I think I understand your reason

0517

1 for including it in this rate case. As a new
2 Commissioner, I just want to confirm, is this the
3 first time the company is asking for Grid
4 West-related costs to be included in a rate case?

5 A. No, it's not. We included Grid West in the
6 previous rate case. As part of the settlement, it
7 was agreed that we could -- it was not included in
8 rates after that case. We were -- the settlement
9 said that we can consider deferring these costs
10 outside base rates. The company looked at the
11 amount, and it's \$200,000 a year, and made the
12 decision that deferral was probably, and the amount
13 of time to track the deferral, that we believe it's
14 an ongoing cost and decided not to seek recovery as a
15 deferred account; that we think it should stay in
16 base rates.

17 Q. And the basis, the accounting basis, the
18 regulatory accounting basis that you are basing this
19 on is the fact that you regard these expenses as,
20 quote, ordinary, necessary and reasonable?

21 A. Yes, that's correct.

22 Q. Even though Grid West is not actually up and
23 going and functioning as an entity --

24 A. Right, but --

25 Q. -- as of this date?

0518

1 A. Transmission planning will continue and
2 we'll continue working in this area whether or not
3 Grid West comes into effect.

4 Q. But you have to -- don't you realize that
5 there are other planning related organizations and
6 efforts going on in this region?

7 A. Yes, we could work with -- we will work in
8 the transmission planning area.

9 Q. But are you working with any other
10 organization other than Grid West and contributing
11 dues to?

12 A. Well, these were not dues. These are the
13 labor costs.

14 Q. The labor costs, excuse me.

15 A. Yes, people -- I'm not certain about that.
16 We have a transmission planning department, which
17 would work with all other utilities on a general
18 going -- general basis to plan transmission.

19 Q. Could you provide that information for the
20 record, and that is are any of your resources and
21 staff devoted to other transmission planning efforts,
22 other than what is called Grid West?

23 A. Yes, we could.

24 JUDGE RENDAHL: Okay. Well, we'll consider
25 that as Bench Request 15, resources and staff devoted

0519

1 to other RTO activities or organizations?

2 COMMISSIONER JONES: Sure.

3 MR. WOOD: Just for clarification, was the
4 request for other RTO organizations or other
5 transmission planning organizations?

6 COMMISSIONER JONES: Other transmission
7 planning organizations.

8 JUDGE RENDAHL: All right. Other
9 transmission planning organizations.

10 COMMISSIONER JONES: I think. Yeah.

11 JUDGE RENDAHL: Okay.

12 COMMISSIONER JONES: Okay. I think that's
13 all I have. Thank you.

14 COMMISSIONER OSHIE: Judge, I have one
15 question to follow-up on Commissioner Jones' line of
16 questioning with regard to the RTO costs.

17

18 E X A M I N A T I O N

19 BY COMMISSIONER OSHIE:

20 Q. Mr. Wrigley, do you know why Staff
21 recommended to the company that it defer the RTO
22 costs?

23 A. The idea was that we would defer the RTO
24 costs until Grid West became a viable organization.

25 Q. So I would assume what Staff was really

0520

1 looking for there was, before it could recommend that
2 those costs be approved or believed to be just and
3 reasonable and prudent expenses for this jurisdiction
4 was that they would have to result in a viable
5 operation before they would be allowed to be in
6 rates?

7 A. I believe that is the Staff view.

8 COMMISSIONER OSHIE: Okay. Thank you.

9 JUDGE RENDAHL: Okay. I have one question
10 for you, Mr. Wrigley.

11

12 E X A M I N A T I O N

13 BY JUDGE RENDAHL:

14 Q. If you could turn to Exhibit 193, or your
15 Exhibit PMW-3, and at Tab One, which is labeled
16 Summary? And if you then would turn to page 1.3
17 within that tab. Okay, you show on this gross
18 receipts tax or revenue tax rate of 3.873; correct?

19 A. Yes.

20 Q. And a Washington State income tax at 4.54
21 percent; correct?

22 A. Yes.

23 Q. Can you explain why you believe both of
24 these taxes are collected in Washington and how the
25 taxes are filed and paid within the State of

0521

1 Washington?

2 A. Neither of them are actually paid and filed.

3 Basically, the revised protocol agreement takes all
4 taxes in all states and spreads them to all of them,
5 so --

6 Q. So this is a reflection of the revised
7 protocol?

8 A. It's been in all the allocation
9 methodologies since at least the early 1990s.

10 JUDGE RENDAHL: Okay. I don't have any
11 further questions. Judge Mace, do you have any
12 questions? Any other questions for the bench?

13 COMMISSIONER JONES: Just one clarification
14 on the bench request that was made. I'd like to
15 clarify that the type of information we seek from the
16 company is for regional transmission management and
17 planning, not just planning, if that's suitable.

18 THE WITNESS: Of course.

19 JUDGE RENDAHL: Okay. Well, with that, I
20 believe, if there's nothing further for this witness,
21 Mr. Wrigley, you're done. You can step down for now,
22 and understand you're coming back later in February.
23 Thank you very much. Let's be off the record for a
24 moment.

25 (Lunch recess taken.)

0522

1 JUDGE RENDAHL: Let's go on the record after
2 our lunch break. And before Ms. Omohundro --

3 MS. OMOHUNDRO: That's good.

4 JUDGE RENDAHL: -- is sworn in and gets
5 going, it's been a long morning already for you,
6 there are a few witnesses for the company who -- for
7 whom cross-examination has been waived, and we need
8 to -- I guess there's a stipulation for admission of
9 the exhibits and the cross exhibits, is that correct,
10 for various witnesses?

11 So let's start with Mr. Rosborough at
12 Exhibit 231-T through the first -- there's one
13 cross-examination exhibit from Staff, so that would
14 be 231-T through 242. Is there any objection to
15 admitting those exhibits?

16 MR. FFITCH: No objection.

17 MR. WOOD: No objection.

18 JUDGE RENDAHL: All right. Those will be
19 admitted. And then we turn to Mr. Griffith. I have
20 Exhibits 251-T through 260 for Mr. Griffith,
21 including cross-examination exhibits, and I'm
22 assuming there's no opposition to admitting those
23 exhibits?

24 MR. TROTTER: I think it's -- just a minute.

25 JUDGE RENDAHL: Two-fifty-one.

0523

1 MR. TROTTER: Okay.

2 JUDGE RENDAHL: And then there are two
3 Public Counsel exhibits, 260.

4 MR. TROTTER: All right.

5 JUDGE RENDAHL: Is that acceptable to admit
6 those?

7 MR. WOOD: That would be fine, Your Honor.

8 JUDGE RENDAHL: Okay. So we'll admit 251-T
9 through 260. Then, Mr. Klein, there is no cross for
10 Mr. Klein; correct?

11 MR. TROTTER: Correct.

12 JUDGE RENDAHL: And the parties are
13 stipulating to admission --

14 MR. TROTTER: Yes.

15 JUDGE RENDAHL: -- of the exhibits, and that
16 would be Exhibits 261-T through 270. All right. So
17 those will be admitted. And then Mr. Wilson has
18 Exhibits 271-T through 275, and it's acceptable to
19 admit those?

20 MR. TROTTER: Yep.

21 JUDGE RENDAHL: Hearing no objection.
22 Moving on to Mr. Elliott, Exhibits 281-T through 283,
23 any objection to admitting those exhibits?

24 MR. TROTTER: No.

25 JUDGE RENDAHL: Hearing nothing, those will

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1 be admitted. Mr. Effron, for Public Counsel.

2 MR. FFITCH: Yes.

3 JUDGE RENDAHL: Is there also a stipulation
4 to admitting what's been marked as Exhibits 291-T
5 through 295?

6 MR. FFITCH: I believe so, Your Honor, yes.

7 JUDGE RENDAHL: All right. Any objection to
8 admitting those exhibits into the record?

9 MR. WOOD: No.

10 JUDGE RENDAHL: Hearing nothing, Exhibits
11 291-T through 295 will be admitted. Mr. Selecky will
12 appear later. Mr. Duvall will appear later. Are
13 there any other witnesses for whom we need to --

14 MR. TROTTER: Mr. Eberdt.

15 JUDGE RENDAHL: Mr. Eberdt. I think -- I'm
16 not sure whether the Commissioners have questions or
17 not, but we can go ahead and admit those and then
18 deal with whether he appears or not.

19 MR. WOOD: Your Honor, it's my understanding
20 that the witnesses we previously identified, the
21 Commissioners don't require their attendance either;
22 right?

23 JUDGE RENDAHL: Exactly, exactly. Can
24 somebody point me to Mr. Eberdt's --

25 MR. TROTTER: Six-fifty-one.

0525

1 JUDGE RENDAHL: Thank you.

2 JUDGE MACE: Page 28, 651, yeah.

3 JUDGE RENDAHL: All right. Any objections
4 to admitting Exhibits 651-T through 663?

5 MR. WOOD: No objection.

6 JUDGE RENDAHL: Hearing no objection, those
7 exhibits will be admitted. And then, going back to
8 Staff, is there a stipulation to admit Dr. Mariam's
9 exhibits and cross exhibits, or are we still working
10 the details out on that stipulation?

11 MR. WOOD: I think I'd prefer to defer until
12 we know that we have a stipulation, and then we'll
13 just admit it.

14 MR. TROTTER: That's fine.

15 JUDGE RENDAHL: Okay. That will work. I
16 think the only other one that maybe we should just go
17 ahead and admit is the joint testimony on rate spread
18 and rate design, and that's Exhibit 711-T through
19 714. Is there any --

20 MR. FFITCH: Yes, thank you, Your Honor.

21 JUDGE RENDAHL: Is there any objection to
22 that?

23 MR. WOOD: None.

24 JUDGE RENDAHL: Hearing nothing, those will
25 be admitted. And I think the remainder, we should

0526

1 just wait till the witnesses are here to do so,
2 unless anybody has suggestions otherwise.

3 MR. FFITCH: I was just going to ask about
4 Mr. Hill, I guess.

5 JUDGE RENDAHL: Ah, why don't we take that
6 up later, because we may be adding to Mr. Hill's --

7 MR. FFITCH: Yes, and he'll be --

8 JUDGE RENDAHL: -- testimony.

9 MR. FFITCH: He's potentially back on the
10 3rd, so we can just do it all then. All right.

11 JUDGE RENDAHL: Do it all then. Anything
12 further from the company on exhibits?

13 MR. WOOD: Not on exhibits. Just one thing,
14 since we're on the record, to put on the record
15 something that was discussed off the record
16 yesterday, but isn't necessarily reflected in the
17 calendar. When we talk about the calendar for
18 remaining time, I just want to reflect the
19 understanding, with the schedule we set up for
20 February 2nd and 3rd, that to the extent that the new
21 adjustments are proposed in the Staff or Intervenors'
22 testimony of January 27, that our witnesses will have
23 the opportunity to respond to those on the stand?

24 JUDGE RENDAHL: That was my understanding of
25 the agreement that was presented. Is that a problem?

0527

1 So there will be oral rebuttal testimony.

2 MR. FFITCH: I think perhaps Mr. Wood can
3 address this. The definition of new adjustments was
4 discussed, and my understanding is that it did not
5 include testimony relating to the double leverage
6 issue, primarily, or impact of the merger on capital
7 structure and cost of capital. That was not what was
8 meant by the term new adjustments?

9 MR. WOOD: That is correct.

10 JUDGE RENDAHL: Okay. So meaning,
11 basically, new accounting adjustments was what we
12 mean by new adjustments. Okay.

13 I said yesterday on the record and I'll
14 repeat today, I intend to put a notice out. Judge
15 Mace and I will put a notice out reflecting these
16 changes, but since we're all in the hearing room,
17 it's not possible yet, so I'll get that going,
18 hopefully out early next week. And if there's
19 anything that we happen to miss in the notice, I
20 trust you all will let us know, omitted something.
21 Simon.

22 MR. FFITCH: One other housekeeping matter,
23 Your Honor. We had identified Exhibits 682 through
24 688 for Mr. Cavanagh, and those were DR answers that
25 we had not yet received. We've now received them and

0528

1 we're putting them together in stacks and they will
2 be brought to the hearing room on Monday, or Tuesday,
3 rather, so we'll be able to present them to you and
4 to counsel on Monday.

5 JUDGE RENDAHL: That would be great. Thank
6 you. And I don't believe there are any other
7 to-be-filed exhibits left at this point. All right.
8 Well, we'll be off the record until the Commissioners
9 reappear.

10 (Recess taken.)

11 JUDGE RENDAHL: Let's be on the record. Ms.
12 Omohundro, if you'd raise your right hand.

13 Whereupon,

14 CHRISTY OMOHUNDRO,
15 having been first duly sworn, was called as a witness
16 herein and was examined and testified as follows:

17 JUDGE RENDAHL: Please go ahead, Mr. Wood.

18 MR. WOOD: Thank you. Ms. Omohundro, I will
19 identify three exhibits that she's sponsoring.
20 They're Exhibits 381-T, 382, and 383-T. It's my
21 understanding that we will offer these exhibits and
22 that Ms. Omohundro will be cross-examined on all
23 parts -- all material on those exhibits except with
24 respect to decoupling. It's my further understanding
25 that she'll be called back at a later date scheduled

0529

1 to address the question of decoupling.

2 JUDGE RENDAHL: Yes, we've designated next
3 Friday, the 20th, a week from today, for decoupling
4 testimony.

5

6 D I R E C T E X A M I N A T I O N

7 BY MR. WOOD:

8 Q. Ms. Omohundro, the testimony I have
9 identified, was it prepared by you or under your
10 supervisor or direction?

11 A. Yes, it was.

12 Q. Do you have any revisions?

13 A. Only one. On page one of my direct
14 testimony, I state I'm managing director of
15 regulation with responsibility for all state
16 regulatory matters in Washington, Oregon and
17 California. My responsibilities have changed. I'm
18 managing director of all the internal analytics in
19 the regulation department.

20 Q. Thank you. As modified, are these exhibits
21 true and correct, to the best of your knowledge?

22 A. Yes.

23 MR. WOOD: Your Honor, I would offer the
24 identified exhibits.

25 JUDGE RENDAHL: Is there any objection to

0530

1 admitting what's been marked as Exhibits 381-T
2 through 383-T?

3 MR. FFITCH: No objection.

4 JUDGE RENDAHL: Hearing no objection, those
5 exhibits are admitted.

6 MR. WOOD: Ms. Omohundro's available for
7 cross-examination, Your Honor.

8 JUDGE RENDAHL: Thank you. Mr. Trotter.

9 MR. TROTTER: Thank you, Your Honor.

10

11 C R O S S - E X A M I N A T I O N

12 BY MR. TROTTER:

13 Q. Good afternoon, Ms. Omohundro.

14 A. Good afternoon, Mr. Trotter.

15 Q. You are not a cost of capital expert, are
16 you?

17 A. No, I'm not.

18 Q. And you're not a power supply expert, are
19 you?

20 A. No, I'm not.

21 Q. I might refer you to your rebuttal
22 testimony, 383-T, starting on page one, line 20. And
23 here you're addressing Mr. Buckley's testimony that
24 the Commission -- opposing the company's proposed
25 PCAM; is that right?

0531

1 A. Yes.

2 Q. And isn't it true that Mr. Buckley can
3 support a PCAM different than what the company has
4 proposed? He's willing to work with the company once
5 an allocation method is approved?

6 A. I haven't talked to him directly about that.

7 Q. Did you read that in his testimony?

8 A. Yes.

9 Q. Okay. Now, you say here there's no question
10 that Staff has consistently opposed and continues to
11 oppose the use of the revised protocol
12 inter-jurisdictional allocation methodology. Do you
13 see that?

14 A. Yes.

15 Q. And you agree, I believe it's later in your
16 testimony, that an approved allocation methodology is
17 necessary in order for a PCAM type mechanism to be
18 implemented; is that true?

19 A. That's correct.

20 Q. Okay. So the company has known, then, for
21 several years that it needs an approved allocation
22 methodology in order to have a PCAM type mechanism?

23 A. That's correct.

24 Q. So the issue is not the fact that PacifiCorp
25 operates in six states. That's not the problem. The

0532

1 problem is the lack of an approved cost allocation
2 methodology in this state?

3 A. The issue is the problem that we've had over
4 the number of years has been the lack of an
5 inter-jurisdictional allocation methodology and, as a
6 result, we've been denied certain regulatory relief
7 as a result of that.

8 Q. Okay. Right. And with respect to the
9 revised protocol, the company developed that prior to
10 the end of the last rate case, did it not?

11 A. We had developed the protocol and finalized
12 the revised protocol right at the end of the last
13 case.

14 Q. And you chose to file it in that case, that
15 prior rate case, did you not?

16 A. Yes, we did.

17 Q. And that case was settled?

18 A. That case was settled and the parties
19 agreed, for purposes of that case, we would use the
20 protocol, as opposed to updating to the revised
21 protocol.

22 Q. Right, but at any time after the company had
23 developed its revised protocol method, it could have
24 filed a petition with this Commission for approval of
25 that methodology, couldn't it?

0533

1 A. Well, we have been told in the past that a
2 Commission must ask for approval of an allocation
3 methodology in conjunction with a general rate case.

4 Q. In other states, you filed petitions outside
5 of rate cases, haven't you?

6 A. Yes.

7 Q. Who told you you couldn't file a petition
8 seeking approval of an allocation methodology?

9 A. Well, we've understood that from Mr. Elgin
10 in the past. I don't have that documentation with
11 me, but I could identify it.

12 Q. You're not relying on a Commission order in
13 that regard, are you?

14 A. No.

15 Q. I believe, in your direct testimony, you
16 refer to Avista having a PCAM type mechanism. Do you
17 recall that?

18 A. Yes.

19 Q. Isn't it true that Avista justified its PCAM
20 in part because its bonds were below investment
21 grade?

22 A. I don't know the specifics of that case. I
23 could accept that, subject to check.

24 Q. The California energy crisis occurred in the
25 2001 time frame, did it not?

0534

1 A. Among other years, yes.

2 Q. 2001 to 2002?

3 A. Yes.

4 Q. As of today, in 2006, the company has no
5 PCAM in any jurisdiction in which it operates, does
6 it?

7 A. It does not. We have PCAMs on file in three
8 -- or in four of our states and are in process of
9 getting one filed in the other two.

10 Q. Has the staff of any commission in any of
11 the other five PacifiCorp states recommended any form
12 of a power cost adjustment mechanism?

13 A. Yes, the Oregon staff has recommended a form
14 of a PCAM mechanism.

15 Q. And is that in a pending case?

16 A. Yes, it is.

17 Q. What about the other states?

18 A. We have had a pass-through type mechanism in
19 Wyoming in the past, and are currently requesting a
20 pass-through. And also in California, we understand
21 that a power cost adjustment mechanism is not an
22 issue with the Staff, as the other utilities in
23 California have a power cost -- all have power cost
24 adjustment mechanisms.

25 Q. Once an allocation methodology is approved

0535

1 in this state, is the company willing to work with
2 the Staff to develop an acceptable mechanism?

3 A. Certainly.

4 MR. TROTTER: Those are all my questions.

5 Thank you.

6 JUDGE RENDAHL: Thank you, Mr. Trotter. Mr.

7 Ffitch.

8 MR. FFITCH: Thank you, Your Honor.

9

10 C R O S S - E X A M I N A T I O N

11 BY MR. FFITCH:

12 Q. Good afternoon, Ms. Omohundro.

13 A. Good afternoon.

14 Q. Are you familiar with the -- what's
15 generally referred to as PacifiCorp's five-year rate
16 plan?

17 A. Yes, I am.

18 Q. And to summarize, that was a plan that was
19 adopted in approximately 1999, and was intended to
20 operate through year-end 2005; correct?

21 A. That's correct.

22 Q. And in general terms, that provided for rate
23 increases for PacifiCorp in the first three years of
24 the plan and then a rate freeze for customers in
25 years 2004 and 2005; correct?

0536

1 A. That's correct.

2 Q. And after the three years of rate increases,
3 PacifiCorp then approached the Commission seeking
4 further rate increases based on what were
5 characterized as extraordinary power costs; isn't
6 that true?

7 A. Yes.

8 Q. And the Commission at that time denied that
9 request for a rate increase in that docket for
10 extraordinary power costs, did it not?

11 A. It did, and it also acknowledged that events
12 had overtaken the rate plan and we were allowed to
13 file a general rate case.

14 Q. That's correct. So that the previous
15 Commission approved PacifiCorp's abrogation of that
16 agreement at that time and allowed the company to
17 file a rate case that -- which was the 2003 rate case
18 we've been discussing; correct?

19 MR. WOOD: I object to the form of the
20 question. Abrogation of the agreement. I think the
21 witness has characterized the circumstances and the
22 request to be allowed to file.

23 Q. Well, I'll withdraw that and ask -- you can
24 use whatever term you like. The PacifiCorp
25 determined to no longer comply with the agreement

0537

1 which it had entered into with Public Counsel, with
2 the Commission Staff, with Industrial Customers and
3 other parties; correct?

4 A. Yes, the company found itself in
5 extraordinary circumstances as a result of the power
6 crisis. Having incurred over \$80 million in excess
7 net power costs during the power crisis, only a small
8 portion of which those increases covered, and as a
9 result of that, we made the case and the Commission
10 agreed that events had overtaken the rate plan and
11 that rates were no longer fair, just and reasonable,
12 and that we should be allowed to file a general rate
13 case.

14 Q. Well, the order will speak for itself, but
15 the Commission did not agree with you that you --
16 that the extraordinary power costs which you sought
17 to recover in the deferral docket were appropriate,
18 did it?

19 A. It did not determine that those particular
20 costs were -- would improve our case, I think is what
21 they said.

22 Q. Right. And one of the reasons why the
23 Commission agreed with you and agreed to abrogate or
24 reopen the five-year settlement plan was that they
25 felt it was important to revisit the allocation

0538

1 methodology; isn't that correct?

2 A. Yes.

3 Q. And you've just answered some questions from
4 Mr. Trotter on this topic, but when you filed the
5 general rate case at the Commission's invitation in
6 2003, that case resulted in a settlement and there
7 was, in fact, no significant consideration or
8 resolution of the cost allocation issue, multi-state
9 cost allocation issue, was there?

10 A. The agreement among the parties that -- the
11 settling parties was that the protocol would be used
12 for purposes of that case. The revised protocol had
13 just recently been slightly modified, had just been
14 recently finalized, and it was not appropriate or
15 reasonable to apply that methodology in the
16 Washington case without extending the procedural
17 deadline.

18 Q. So the reason -- one of the reasons given
19 for reopening or abrogating or abandoning the
20 five-year rate plan; i.e., addressing the multi-state
21 allocation issue, actually did not take place and has
22 not yet taken place; correct? It's taking place now
23 in this docket potentially; correct?

24 A. It is taking place in this docket.

25 Q. Could I ask you, please, to turn to Exhibit

0539

1 383-T, which is your rebuttal testimony, and I'll ask
2 you to turn to page four of that. And do you have
3 that?

4 A. Yes.

5 Q. And there, at lines 11 through 13, you
6 indicate that you agree with Mr. Lott that a PCAM
7 should be consistent with established Commission
8 policy; correct?

9 A. Yes.

10 Q. And you then state that the best evidence of
11 current Commission policy and guidelines is reflected
12 in the current Puget Sound Energy and Avista
13 mechanisms; correct?

14 A. Correct.

15 Q. And wouldn't you also agree that Commission
16 orders in other power cost adjustment cases are also
17 relevant and provide guidance to this Commission on
18 this issue?

19 A. Certainly. I was just citing these as the
20 most current.

21 Q. Now, in the next sentence there, starting at
22 line 14, lines 14 through 16, you indicate that
23 PacifiCorp designed the components in its proposed
24 mechanism in this docket to be similar to the Avista
25 mechanism proposed by Staff and Avista in Docket

0540

1 UE-050482; correct?

2 A. Correct.

3 Q. And that's Avista's last general rate case
4 that just concluded; correct?

5 A. Yes.

6 Q. Now, the -- and that's referred to in the
7 Avista context as an ERM, or energy recovery
8 mechanism; right?

9 A. Yes.

10 Q. Now, you're aware, are you not, that the ERM
11 proposed by Staff and Avista in that case was not
12 accepted?

13 A. I understand that they had proposed a
14 reduction in the deadband from nine million down to
15 three million, and the Commission did not accept that
16 stipulation.

17 Q. Are you generally familiar with Puget Sound
18 Energy's and Avista's current power cost adjustment
19 mechanism?

20 A. Generally familiar.

21 Q. Okay. Well, I'll ask you these, and if you
22 have to do it subject to check, I'll -- that will be
23 fine.

24 A. Okay.

25 Q. Just a couple questions about those

0541

1 mechanisms. Puget Sound Energy's PCA was established
2 as a long-term continuing mechanism; isn't that
3 correct?

4 A. Yes.

5 Q. Avista's ERM mechanism was the continuation
6 of the emergency referrals established prior to its
7 adoption, and the ERM mechanism had a review
8 scheduled for this year by its terms, did it not?

9 A. I can accept that, subject to check.

10 Q. And in fact, that review has now been
11 accelerated as a result of the last rate case, last
12 Avista rate case we were just discussing, has it not?

13 A. I'll accept that, subject to check, as well.

14 Q. And you just mentioned the deadbands in
15 those two plans. Let me address -- let me go there a
16 little bit. Both Avista's current ERM and Puget's
17 PCA have deadbands; correct?

18 A. Yes.

19 Q. And Avista's deadband is \$9 million;
20 correct?

21 A. That's correct.

22 Q. And Puget Sound Energy has a \$20 million
23 deadband; correct?

24 A. Correct, correct.

25 Q. Then there's a second \$20 million sharing

0542

1 band which shares costs at a 50/50 level; correct?

2 A. Yes.

3 Q. And then Puget goes -- has further sharing
4 bands beyond that; correct?

5 A. Yes, and I believe they also have a maximum
6 exposure of 40 million, which, at this point, it's my
7 understanding that there is no deadband operational,
8 since they've exceeded the \$40 million in deferral in
9 the long-term mechanism.

10 Q. Now, your proposal for PacifiCorp in this
11 case contains no deadband; correct?

12 A. That's correct.

13 Q. And just a moment ago, you indicated that
14 you followed Avista's settlement in crafting your
15 proposal; right?

16 A. Generally. I mean, we didn't copy it
17 exactly. We generally designed the mechanism to be
18 similar to the Avista mechanism. It's true we did
19 not propose a deadband.

20 Q. All right. Avista's initial filing did not
21 propose -- proposed eliminating their deadband;
22 correct?

23 A. I can accept that, subject to check.

24 Q. But the settlement, which you modeled your
25 proposal after, actually retained a portion of the

0543

1 deadband, did it not?

2 A. Yes, it did.

3 Q. And even that reduced deadband that had been
4 agreed to was rejected by this Commission in its
5 order in the rate case, was it not?

6 A. Yes.

7 Q. Now, let's take a look at another aspect of
8 this over in Puget's PCA. In Puget's PCA, new
9 contracts are excluded to the extent the cost of the
10 new contract exceeds the current embedded cost; is
11 that correct?

12 A. I will accept that subject to check.

13 Q. And in Puget's PCA, fixed costs of new
14 purchased resources are also excluded from recovery;
15 correct?

16 A. I will accept that, subject to check.

17 Q. Okay. Thank you. So thus, in Puget's PCA,
18 neither new purchase power contracts nor new owned
19 generation will be fully passed through the PCA if
20 they result in increased embedded costs. Wouldn't
21 that follow?

22 A. Subject to check, yes.

23 Q. PacifiCorp's PCAM proposal would include
24 cost increases associated with new contracts; is that
25 right?

0544

1 A. Yes, and we think it's important to include
2 all the net power cost components in the PCA so as
3 not to have the company -- to create perverse
4 incentives to favor one resource over the other. And
5 we think that's an important design mechanism.

6 Q. All right. You address that in your
7 testimony, don't you?

8 A. Right.

9 Q. Does PacifiCorp not control the timing and
10 terms included in its long-term contracts the same as
11 it would if it chose to build a new resource?

12 A. Yes.

13 Q. Under the PacifiCorp proposal, new contracts
14 are fully included while newly built or purchased
15 rate base additions would not be fully rolled into
16 the PCA; correct?

17 A. That's correct.

18 Q. Can I ask you to turn to page six, please,
19 of your testimony? This is Exhibit 383-T still.

20 A. This is my direct?

21 Q. This is your rebuttal.

22 A. Okay.

23 Q. Same testimony. And I'm looking at lines
24 one through three, and you actually, I think,
25 adverted to this a moment ago. There you indicate

0545

1 that if Pacific is not allowed to fully pass through
2 new long-term contracts, it would be artificially
3 incented to purchase short-term, high-cost resources;
4 right?

5 A. That could be a result, yes.

6 Q. Okay.

7 JUDGE RENDAHL: Mr. ffitch, are you starting
8 on line 23 of page five and moving up to the top of
9 page six?

10 MR. FFITCH: Let me check. Perhaps I am.
11 Yes, Your Honor.

12 JUDGE RENDAHL: Okay. Thank you.

13 MR. FFITCH: Thank you for that correction.

14 Q. Ms. Omohundro, are you suggesting that even
15 if the most prudent resource acquisition for
16 PacifiCorp is a long-term resource based on the
17 least-cost plan or other reasonable factors, that
18 PacifiCorp would nevertheless imprudently inquire --
19 excuse me, imprudently acquire more expensive
20 short-term resources just so that it could run those
21 through the PCAM mechanism?

22 A. No, I'm not saying that. I mean, the
23 company is going to acquire the most prudent resource
24 it can. All I'm saying is you shouldn't design a
25 mechanism to create perverse incentives.

0546

1 Q. Has PacifiCorp failed to make prudent
2 least-cost purchases over the last 18 years because
3 of its inability to pass through new contracts?

4 A. I don't know if I can answer that question.
5 I mean, I don't believe so. I mean, I think the
6 record speaks for itself in terms of the Commission
7 decisions.

8 Q. All right. Now, subsequent to the merger
9 with Utah Power, did PacifiCorp experience a period
10 of time where it had declining power costs?

11 A. Probably need to direct that question to Mr.
12 Widmer.

13 Q. Prior to the merger with Utah, is it correct
14 that Utah had a PCA in its Utah jurisdictions --
15 excuse me, Utah Power had a PCA in its Utah
16 jurisdictions?

17 A. I'm not familiar with that, but I can accept
18 it subject to check.

19 Q. Well, is it correct that PacifiCorp
20 petitioned to terminate the PCA at that time?

21 A. I just don't know.

22 Q. Now, Puget's -- excuse me, PacifiCorp's PCAM
23 proposal also includes a retail revenue credit factor
24 similar to the Avista mechanism; is that right?

25 A. Yes.

0547

1 Q. I'm sorry, I neglected to direct you to a
2 reference in your testimony. Can I please have you
3 look at page five of your rebuttal still, Exhibit
4 383, and it's line 18. I just wanted to ask a couple
5 questions about that. And starting there, you list a
6 series of variable costs that are included in the
7 PCAM; correct?

8 A. Yes.

9 Q. And the variable costs mentioned on page
10 five include wheeling; correct?

11 A. Yes.

12 Q. Are transmission revenues included in your
13 PCAM proposal?

14 A. Probably have to ask Mr. Widmer that
15 question.

16 Q. Does your retail revenue credit factor
17 include the system transmission plant and associated
18 O&M, or operations and maintenance?

19 A. I believe it does. And that -- and again,
20 I'd ask you to refer to Mr. Widmer for that one, that
21 question.

22 Q. All right. Are you aware that in the Puget
23 PCA, all of these costs are included as either
24 variable or fixed items?

25 A. I'm not familiar with the Puget methodology

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1 in that level of detail.

2 Q. Are you aware that in Avista's ERM, no
3 transmission or wheeling items are included?

4 A. I could accept that subject to check.

5 MR. FFITCH: Thank you, Ms. Omohundro. I
6 have no further questions, Your Honor.

7 JUDGE RENDAHL: Thank you, Mr. ffitich. Ms.
8 Davison.

9 MS. DAVISON: Thank you, Your Honor.

10

11 C R O S S - E X A M I N A T I O N

12 BY MS. DAVISON:

13 Q. Good afternoon.

14 A. Good afternoon.

15 Q. And thank you for your flexibility to appear
16 this afternoon ahead of schedule.

17 A. I heard it could have been yesterday
18 afternoon.

19 Q. I would like to refer you to your rebuttal
20 testimony, 381-T at page two, lines four through six.
21 You state that Washington customers have low rates,
22 quote, largely as a direct result of the inclusion of
23 Eastside loads and resources; is that correct?

24 A. Yes.

25 Q. Is it your --

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1 JUDGE RENDAHL: Ms. Davison, where are you
2 reading from?

3 MR. TROTTER: She meant 383-T, Your Honor.

4 MS. DAVISON: Oh, I'm sorry.

5 JUDGE RENDAHL: This is direct. So we're
6 looking at 383?

7 MS. DAVISON: No, no, no. I said rebuttal,
8 but I gave you the wrong exhibit number, so I
9 apologize for that.

10 JUDGE RENDAHL: Rebuttal testimony, 383,
11 page two?

12 MS. DAVISON: Yes.

13 JUDGE RENDAHL: Thank you. And I'm sorry if
14 I interrupted the answer. You might need to repeat
15 the question.

16 THE WITNESS: I agreed.

17 Q. Sorry about that. Is it your position that
18 PacifiCorp -- PacifiCorp's Washington rates would be
19 higher if Eastside loads and resources were removed
20 from rates?

21 A. I mean, there's a lot of detail that could
22 go into that question, I mean, how you would remove
23 Eastside resources from rates, but, generally, I
24 think that the Eastside low-cost coal resources have
25 had the effect of keeping PacifiCorp's rates very

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1 reasonable.

2 Q. If that's the case, then I am puzzled by
3 Utah's strenuous opposition to the hybrid model,
4 which was, in effect, an attempt to separate Eastside
5 resources from Westside resources. Can you explain
6 that?

7 A. Can I explain Utah?

8 Q. Well, can you explain how the Westside
9 benefits from the low-cost coal, but yet hybrid was
10 an attempt to segregate that out, and Utah strongly
11 opposed that effort.

12 A. My understanding is Utah's view of it is
13 that as a philosophical matter, that the system
14 should be planned on an integrated basis, and that
15 results in the most economically efficient system.

16 Q. But wasn't it true that Utah strongly
17 opposed hybrid because that methodology would, in
18 fact, result in a higher cost system, and that was
19 the whole reason for the rolled-in methodology?

20 A. I can't -- I don't know that that's true.

21 Q. Did PacifiCorp request approval of a PCAM
22 type mechanism in either of its last two general rate
23 cases in Washington?

24 A. I know we did not in the last general rate
25 case. I don't believe we did -- I'm not sure if we

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1 did in the rate case before that.

2 Q. Would you accept, subject to check, that you
3 did not file in --

4 A. I will accept that, subject to check, yes.

5 Q. Thank you. And I believe in Exhibit 381-T,
6 your direct testimony, at page two, that you state
7 one of the company's reasons for its requests for a
8 PCAM is the fact that Puget and Avista have some sort
9 of mechanism for recovering their power costs; is
10 that correct?

11 A. Where are you looking?

12 Q. Your direct testimony, page two, line nine,
13 and that carries over to page three.

14 JUDGE RENDAHL: So we're looking at 381-T?

15 MS. DAVISON: Yes, Your Honor.

16 THE WITNESS: The reason the company is
17 requesting a power cost adjustment mechanism is
18 because our power cost exposure has been -- become
19 extremely asymmetric and we no longer have a fair
20 opportunity to recover our legitimate costs of
21 service. We have cited the Puget and Avista
22 mechanisms in Washington as examples of policy that
23 this Commission has approved with respect to PCAMs in
24 Washington.

25 Q. Are you aware that the original

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1 establishment of power cost adjustment mechanisms in
2 both the case of Avista and Puget were the result of
3 settlements?

4 A. I can accept that, subject to check.

5 Q. And are you aware that, in both instances,
6 there was a lot of Intervenor and Public Counsel
7 input and Staff input in developing those mechanisms?

8 A. Surely I can imagine that. We've done those
9 sorts of settlements ourselves.

10 Q. And you're aware in this case that Staff,
11 Public Counsel, and ICNU have all suggested various
12 changes or approaches to a PCA mechanism in this
13 case?

14 A. Yes.

15 Q. And has the company changed its position
16 since filing to reflect any of those suggestions by
17 any of the other parties?

18 A. We haven't, although we'd certainly be open
19 to meeting with the parties to discuss some sort of
20 stipulation.

21 Q. It's fairly late in the process now, though,
22 however; right?

23 A. Well, I think we've gone down that road and
24 they fell apart.

25 Q. But -- well, I should clarify that. By

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1 going down that road, you're not meaning to suggest
2 that we had any settlement talks or workshops on the
3 appropriate way to develop a PCA for this case, are
4 you?

5 A. I'm not aware of those discussions. I
6 wasn't involved in them.

7 Q. In the past, has PacifiCorp mitigated a
8 portion of its exposure to power cost variations by
9 entering into hedging or other risk management tools?

10 A. Yes, we have.

11 Q. And are you aware that PacifiCorp's
12 shareholders earned approximately \$7.6 million from
13 the Aquilla hydro hedge from October 2004 through
14 September 2005?

15 A. I don't know if that's the correct number.
16 I think there were payments under those hedges. I
17 also know that neither the Washington Commission nor
18 the Oregon Commission, either Staff, allowed the
19 costs of those hedges in rates.

20 Q. True, but my question really went to the
21 fact that the company's shareholders earned a \$7.6
22 million revenue increase associated with those
23 hedges?

24 A. They made an investment and it paid off.

25 Q. Exactly. And that is a mechanism that is

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1 commonly used to mitigate risk; isn't that correct?

2 A. Yes, although, I mean, if the Commissions
3 are telling us, as a policy matter, that hedges are
4 not allowed in rates, it makes it difficult.

5 Q. Well, isn't it true in the past that the
6 problem was that the -- there was a mismatch of the
7 cost of the hedge as compared to the benefits of the
8 hedge, and that the company had sought to put the
9 costs in, but not the revenues, and that was the
10 reason why the cost associated with the hydro hedge
11 was removed?

12 A. No, I don't think that's true, but you
13 should ask these questions to Mr. Widmer.

14 Q. Well, the point of my question was simply to
15 establish the fact that the company has used hedging
16 mechanisms as a way of mitigating power cost risk?

17 A. That's correct, and just -- I would also add
18 that, as a result of that activity and the hedge that
19 did pay off, those hedges really aren't available
20 anymore.

21 Q. I'll save that.

22 A. You can follow up that with Mr. Widmer.

23 Q. Mr. Widmer, all right. Is it correct that
24 PacifiCorp's proposed PCAM is based on the use of the
25 revised protocol methodology in this case?

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1 A. Yes, it is.

2 Q. If the Commission adopts an allocation
3 methodology other than revised protocol, do you agree
4 that PacifiCorp's PCAM must be modified?

5 A. It depends. It could need modification, and
6 what we've proposed is if the Commission adopts a
7 different allocation methodology than the revised
8 protocol, that the company would conform the PCAM to
9 the particular allocation methodology approved by the
10 Commission and re-file within 30 days.

11 Q. And you state that in Exhibit 383-T, your
12 rebuttal testimony, page eight, lines three through
13 seven; is that correct?

14 A. Are you asking me -- that's where we state
15 what we would do if a different allocation
16 methodology were approved by the Commission.

17 Q. And my reading of your answer on page eight
18 is that you would have a compliance filing, but it
19 perhaps could be a broader proceeding, depending on
20 what the Commission decides on allocation
21 methodologies?

22 A. It could be a broader proceeding. The point
23 of this is that the company needs a power cost
24 adjustment mechanism now and we would not want that
25 to extend for an undue amount of time. Certainly,

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1 the parties would have input into it.

2 Q. Right, and my question -- my follow-up
3 question to that is that if you do re-file your PCAM
4 proposal in light of the allocation methodology not
5 being revised protocol, I would assume that the
6 parties would then have an opportunity to participate
7 and provide suggestions and input in that PCA
8 development?

9 A. Yes, that's correct.

10 Q. Are you aware that MEHC, as well as Judy
11 Johansen, have stated that the company expects to
12 increase rates approximately four percent per year on
13 an annual basis?

14 A. I'm generally aware of that, yes.

15 Q. And is it correct that the PCAM proposal
16 adjusts rates on an annual basis?

17 A. Yes, it does, and that adjustment can be
18 either upward or downward. Let me just back up for a
19 second. It's actually based on a trigger. There's a
20 trigger mechanism, and when the amount in the
21 deferral account gets to be \$5 million, that would
22 trigger a change in rates, rather than an annual --
23 an annual --

24 Q. Oh, thank you for that clarification.

25 A. -- proceeding.

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1 Q. If the company files annual rate cases, why
2 does it need to have a PCAM if you're resetting your
3 power costs on an annual basis in any event?

4 A. The annual reset of power costs through a
5 rate case or any other mechanism deals with the issue
6 of lag. If the company's power costs are increasing
7 or decreasing, there's an issue of lag. That
8 shortens the lag. What it doesn't do is address
9 volatility of power costs between cases.

10 Q. True, but if you're filing on an annual
11 basis, didn't you deal with the lag issue in this
12 case by proposing a 2007 future test year for power
13 costs?

14 A. Yes, but it's not the same as a power cost
15 adjustment mechanism. A power cost adjustment
16 mechanism deals with the variation of power costs
17 between the establishment of power costs in general
18 rate cases.

19 MS. DAVISON: I have no further questions,
20 Your Honor. Thank you.

21 JUDGE RENDAHL: Thank you, Ms. Davison. Any
22 redirect?

23 MR. WOOD: Just one question.

24 R E D I R E C T E X A M I N A T I O N

25 BY MR. WOOD:

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1 Q. Ms. Omohundro, you were asked questions as
2 to whether the -- concerning whether the company
3 followed the -- or employed the deadbands when it
4 followed generally the Avista form of power cost
5 adjustment, and you indicated, I believe, that you
6 did not. Could you explain why the company did not
7 include a deadband?

8 A. Yes, because of the asymmetric nature of
9 power costs, in our case a deadband would create a
10 permanent disallowance. So rather than proposing a
11 deadband as the sharing mechanism for our PCA, we've
12 proposed the 90/10 split, which we think is a fair
13 sharing among customers and shareholders.

14 MR. WOOD: That's all I've got, Your Honor.

15 JUDGE RENDAHL: Is there any re-cross based
16 on that question?

17 MR. FFITCH: Yes, Your Honor.

18 JUDGE RENDAHL: Go ahead, Mr. ffitch.

19

20 R E C R O S S - E X A M I N A T I O N

21 BY MR. FFITCH:

22 Q. Isn't it the case, Ms. Omohundro, that any
23 deadband is a permanent disallowance that they are
24 intended to provide that the company absorb the power
25 costs which fall within the deadband?

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1 A. Not if the power cost exposure is
2 symmetrical. I mean, because you could gain or lose
3 under a symmetrical mechanism. The fact that it's
4 asymmetric and there's a greater chance of the
5 company incurring higher net power costs results in
6 the permanent disallowance.

7 MR. FFITCH: That's all I have, Your Honor.

8 JUDGE RENDAHL: Thank you, Mr. ffitch. Are
9 there any questions for this witness from the bench?
10 Commissioner Jones.

11

12 E X A M I N A T I O N

13 BY COMMISSIONER JONES:

14 Q. Good afternoon.

15 A. Good afternoon, Commissioner Jones.

16 Q. Could you refer to the Standard and Poor's
17 report, Exhibit 382?

18 A. Sure.

19 Q. You include it, I think, in your testimony.

20 A. I've got it. I can't see it, but I've got
21 it.

22 Q. On page -- page three and four of that
23 report, there's reference, at least in two cases, to
24 companies under the jurisdiction of this Commission
25 and the PCAs that are in effect that we have

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1 approved. Can you find those? I think the Avista
2 ERM is at the bottom of page three.

3 A. Okay. Yes.

4 Q. Is there any reference -- I think this is a
5 general description of the ERM, but is there -- is
6 that correct, in this S&P report?

7 A. In terms of the description of the
8 mechanism?

9 Q. Yes, an assessment of its -- I don't know if
10 there's an assessment of its effectiveness being risk
11 reduction?

12 A. It doesn't really go into detail on the
13 mechanism. It just talks about the \$9 million
14 deadband, looks like. And then your other question,
15 is there an assessment?

16 Q. Well, that's what I'm driving at. Is there
17 any assess -- this report does mention the deadband,
18 does it not?

19 A. Yes.

20 Q. And there's no explicit criticism of the
21 deadband, is there?

22 A. No, but if you look at the -- there's a
23 piece in here where they talk about how all PCA
24 mechanisms are not created equal.

25 Q. Right.

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1 A. So some of them are better than others. And
2 so I think they do acknowledge that here. I don't
3 see that they have a specific analysis of the Avista
4 mechanism.

5 Q. Okay. And then, if you go to page four of
6 the next page, where it describes the PFC FPPA. By
7 the way, while I'm on this point, is there any move
8 in the industry to come up with a common acronym for
9 these? I'm getting confused. FPPA, ERM, now you are
10 proposing a PCM?

11 A. No, all the consultants would, you know, go
12 broke. PCA, power cost adjustment mechanism, is what
13 we're calling it.

14 Q. Well, can we call it a PCA for the purpose
15 of this Commissioner?

16 A. Sure, yes.

17 Q. Okay. The PCA proposed by Puget, again, it
18 talks about the deadband and the sharing mechanism,
19 does it not?

20 A. Yes.

21 Q. Is there any criticism, explicit criticism
22 of that in this order, in this report?

23 A. No.

24 Q. That's all I have on that exhibit. Talking
25 generally about volatility in fuel power costs and

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1 ways to reduce such risks, what would you say? If
2 you had to pick three mechanisms by which a company
3 could reduce such risks, what would they be? And in
4 my list would be a PCA.

5 A. Right.

6 Q. Filing a general rate case.

7 A. Right.

8 Q. Risk management policies, hedging.

9 A. Sure.

10 Q. Managing expenses, good management.

11 A. Well --

12 Q. Or not. Just go through the list, if you
13 would.

14 A. Of options to --

15 Q. Yes, options.

16 A. -- mitigate power costs?

17 Q. And specifically what your company is doing
18 in that hierarchy of options.

19 A. I'm not a power cost expert, so I can tell
20 you generally. But, I mean, we are trying to get
21 power cost adjustments mechanisms in our different
22 states. In Oregon, we have an annual power cost
23 re-set mechanism that allows us to reduce lag, update
24 power costs on an annual basis. We're always
25 attempting to control expenses. The power cost

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1 adjustment mechanism really addresses those expenses
2 that are more out of our control. And we're also
3 always looking into sort of DSM measures and demand
4 response programs, as well. We've got some demand
5 response programs in Utah, as well as a pretty hefty
6 tail-block price for peak loads in Utah, as well.

7 Q. What would you say are some -- are the major
8 differences between the ERM of -- is it correct to
9 understand that your PCA is modeled primarily on the
10 ERM of Avista?

11 A. Roughly.

12 Q. That's what I've heard in this.

13 A. Yes, that's correct.

14 Q. And what are the major differences in terms
15 of what can be included -- besides the deadband. I
16 know the deadband is a different mechanism, but
17 looking at what can be included in the definition of
18 fuel costs.

19 A. I believe the only difference is that the
20 ERM, and I'll have to check this, but I think that
21 the ERM does not include wheeling costs.

22 Q. Okay. Mr. ffitich, I think, got at the
23 question of long-term versus short-term costs and the
24 issue of long-term PPAs, power purchase agreements,
25 and your testimony appears to be a bit contradictory

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1 on that, or at least it's going in different
2 directions. On page five, on principle three --

3 A. Is this in my direct testimony?

4 Q. This is in your rebuttal, excuse me.

5 Exhibit -- what's the exhibit on the rebuttal?

6 383-T.

7 A. Okay.

8 Q. Where you address the principles of the
9 Commission would address in designing a PCAM or in
10 assessing the effectiveness of a PCAM, and you talk
11 about, at the bottom of page five, if the PCAM
12 included only short-term resources, the company would
13 be artificially incented to opt for short-term power
14 supply resources.

15 And then, in principle number six, which is
16 the mechanism should not be designed so as to defer
17 costs that are long range in nature, your response
18 is, quote, The PCAM principally captures variations
19 in short-term year-to-year variations in net power
20 cost beyond the company's control.

21 That appears to me to be somewhat
22 inconsistent.

23 A. Well, I think, for the reasons I talked
24 about with Mr. ffitich, I think that the long-term
25 contracts -- it's important to include the long-term

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1 contracts in the PCAM mechanism to the extent that
2 they come into place between general rate cases so as
3 not to create perverse incentives. On the other
4 hand, in the long run, those costs should be included
5 in the calculation of base net power costs and not
6 calculated in the -- captured in the power cost
7 adjustment mechanism.

8 Q. Does the company have an updated risk
9 management policy that addresses both the risks
10 associated with hedging and how the company is
11 structured in terms of looking at hedging policies
12 and how they are reviewed and approved internally?

13 A. I'm going to have to defer that to Mr.
14 Widmer.

15 Q. Okay. I will defer my question. I was
16 going to make a bench request, but I will defer that
17 until --

18 A. That would be fine, as well. Do you have a
19 preference?

20 COMMISSIONER JONES: Judge, can I make a
21 bench request, then?

22 JUDGE RENDAHL: That would be Number 16.

23 COMMISSIONER JONES: That we receive the
24 most updated -- I don't know what you would call it
25 -- energy risk management/hedging policy --

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1 THE WITNESS: Certainly.

2 COMMISSIONER JONES: -- of PacifiCorp?

3 JUDGE RENDAHL: Bench Request Number 16 is
4 requesting the most updated energy risk management
5 hedging policy of the company.

6 MR. WOOD: That would be fine.

7 Q. My last question is kind of a general one,
8 because we're involved in kind of a circular game of
9 reasoning sometimes between all the issues in this
10 rate case, meaning the general rate case, the
11 decoupling mechanism, the PCA, and the revised
12 protocol. And my question is which comes first in
13 determining, for example, establishing for this PCA
14 the baseline, the net power cost baseline? Can you
15 establish a net power cost baseline without an
16 approved inter-jurisdictional cost allocation
17 methodology?

18 A. Not without a stipulation. I think you have
19 to have the inter-jurisdictional cost allocation, and
20 I think that's very, very important to us in this
21 case.

22 Q. So it's very difficult to design a proper
23 PCA, in your view, without --

24 A. Without an allocation methodology. And that
25 is why it's so important that we -- that the

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1 Commission approve an allocation methodology in this
2 case.

3 COMMISSIONER JONES: That's all I have.
4 Thank you.

5 JUDGE RENDAHL: Commissioner Oshie, do you
6 have any questions?

7

8 E X A M I N A T I O N

9 BY COMMISSIONER OSHIE:

10 Q. Ms. Omohundro, I would -- but for the fact
11 that Mr. MacRitchie punted to you --

12 A. Oh, I heard.

13 Q. -- you could have avoided this line of
14 questioning. I really -- I'd asked Mr. MacRitchie
15 about the decoupling mechanism and maybe a very
16 general question about how it came to be, and he did
17 refer that question to you. But I guess I phrased it
18 in last evening's hearing, Did the company adopt the
19 NRDC's decoupling proposal or did it in whole or in
20 part?

21 A. Well, we adopted their proposal. They
22 raised an issue in terms of wholesale sales that they
23 thought was an issue. We did not agree with that.
24 So there is one issue that we don't agree is an
25 issue, as far as their testimony goes. Is that the

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1 part of it you're getting at?

2 Q. Well, I just -- I think, in general terms, I
3 was just curious to see how much time the company
4 spent developing the decoupling proposal or whether
5 it just adopted the NRDC's testimony?

6 A. Well, we've worked with NRDC in the last two
7 general rate cases in terms of developing the
8 numbers, and this is the second time we've looked at
9 decoupling, so it wasn't just a simple adoption of
10 their proposal. We've been working with them on it
11 for a while.

12 Q. And the decoupling proposal only would apply
13 to the residential and commercial class?

14 A. That's correct.

15 Q. And within each class, would it -- would
16 there be a tracking of individual customers' use, or
17 is it just a tracking the use by a class?

18 A. It's just a tracking of a use by a class, an
19 overall revenue requirement calculation.

20 Q. I see. And is there a true-up, then, at the
21 end of any given period? I think Mr. Cavanagh's been
22 proposing every two years or perhaps every one year a
23 true-up?

24 A. Yes.

25 Q. And the company, in promoting, perhaps would

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1 be a word, I don't know if it's the right word, but
2 just in this -- in the decoupling proposal of NRDC's,
3 did it take into consideration the impact of this
4 decoupling proposal on low-income customers?

5 A. We hadn't looked at that specifically. Was
6 there a particular concern? I mean, I don't see how
7 it would impact low-income customers more than other
8 customers.

9 Q. Well, it seems to me that if the way the
10 decoupling mechanism usually works is that because
11 the company is recovering its fixed costs on a more
12 regular basis, essentially those customers that can
13 curtail their use will pay less in fixed costs than
14 customers who cannot.

15 And you know, outside of the weatherization
16 program that is available to a very limited number of
17 customers within Washington's jurisdiction, it would
18 seem to me that the effect of a decoupling program
19 would be to push more costs on those customers who
20 either cannot shift their use or, excuse me, cannot
21 curtail use, or those who will not. And I would
22 assume that the low-income customers who cannot
23 afford to weatherize or make their homes more
24 efficient, make their appliances more efficient,
25 would then begin to absorb more fixed costs than

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1 those customers who can invest in high-efficiency
2 appliances and weatherization.

3 A. We could look into that. I mean, I don't
4 know the answer to that right offhand, but in terms
5 of the recovery of fixed costs, I mean, the
6 decoupling mechanism goes both ways. If our sales
7 are higher than normal, than we predicted, then there
8 would be a credit back to the account.

9 So we would need to take a look at that.
10 And if there's an issue with low-income customers, we
11 could certainly consider that in the mechanism.

12 Q. Has the company looked at the cost to
13 administer the decoupling proposal?

14 A. Not in a lot of detail.

15 Q. So you don't -- the company really doesn't
16 have a -- I don't really want to use the term, but it
17 really doesn't know what those costs would be to
18 administer the program?

19 A. From the company's perspective, is that the
20 question, how much it would cost?

21 Q. Mm-hmm.

22 A. We had a decoupling program in place in
23 Oregon a number of years ago when it was not -- it
24 did not impose undue costs in terms of administering
25 it.

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1 Q. And I would assume that, you know, a
2 decoupling mechanism that really just looks at the
3 class as much is more -- it costs less than
4 administering a program that looks at each customer?

5 A. Yes, that would -- I think that would be
6 prohibitive.

7 Q. Okay. I'm going to -- one more line of
8 questioning. I want to talk about some of your
9 testimony. It's in your rebuttal testimony, Exhibit
10 383. I'm on page six, line 11.

11 A. Okay.

12 Q. I'm trying to reconcile your statement here
13 that the PCAM is designed not to transfer risk from
14 the stockholder to the ratepayer, but the more fairly
15 apportioned net power cost risk. I'm trying to
16 reconcile that statement with your earlier statement
17 in your direct testimony that makes reference to the
18 PCAM as a mechanism that would remove risk from the
19 company and therefore make it more attractive to the
20 credit agencies and of course those investors who
21 would buy the credit of the company. How do you
22 reconcile those two statements?

23 A. And where is the statement in my direct
24 testimony?

25 Q. I think it's on page six, by coincidence, of

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1 your direct, 381.

2 A. Okay.

3 Q. You make reference to Standard & Poor's
4 reports, I believe, and I believe on page -- on lines
5 14 through 16.

6 A. The issue is not so much the risk of
7 variation, you know, between years. In our case,
8 because the power -- the power cost exposure is so
9 asymmetric, the problem that we've got and the
10 problem that we have with the credit agencies is that
11 we don't have a fair opportunity to recover our
12 costs, because it is asymmetric. So it's trying to
13 -- it's attempting to give a fair opportunity for
14 cost recovery.

15 Q. Well --

16 A. There's a risk element to it, but that is --

17 Q. So are you retracting, then, your statement
18 in your rebuttal testimony that it does not transfer
19 risk? Are you saying now that it does transfer risk
20 and it's recognized by the ratings agencies?

21 A. I would characterize -- I guess I would
22 characterize it. I mean, the risk is that the
23 company is exposed to asymmetric power cost -- power
24 costs, and that results in the difficulty in
25 recovering our costs on an ongoing basis. I mean,

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1 that's a risk.

2 Q. Well, let me ask you a question about that,
3 because, really, it seems to me that your statement
4 there was grounded in your earlier testimony in your
5 direct. On page four, lines three through five, I
6 believe you did refer to this, perhaps not in the
7 exact words in your responses to the
8 cross-examination, was that the net -- the company's
9 net power cost exposure has risen more than 30-fold
10 since 1999?

11 A. Right.

12 Q. And if you removed -- if the company removed
13 the years during the energy crisis of 2000, 2001, and
14 perhaps, you know, some time on the shoulders, would
15 it be 30-fold or would it be -- I would assume it
16 would be much less than that.

17 A. Well, what we have found, even post-energy
18 crisis, is that we do have asymmetric exposure to
19 power costs. And I have a calculation of this in Mr.
20 Widmer's testimony, if I could just point you to it.
21 Just give me a second here. It's on -- Mr. Widmer, I
22 don't know if you have a copy of his testimony, on
23 page eight, points out that --

24 JUDGE RENDAHL: Is this his direct or --

25 THE WITNESS: I'm sorry, it's his rebuttal

0574

1 testimony.

2 JUDGE RENDAHL: His rebuttal testimony,
3 MTW-8, is that what you're referring to, is 398-T.

4 THE WITNESS: Okay.

5 JUDGE RENDAHL: And what page are you
6 referring to?

7 THE WITNESS: On page eight, starting on
8 line 16, it says that it should also be noted that
9 the trend continues through 2005, as actual net power
10 costs for the 12-month period ending September 2005
11 are running approximately 211 million higher than the
12 total company level included in Washington rates.
13 It's -- Mr. Widmer can elaborate more on this, but, I
14 mean, in general, we're seeing just higher power
15 costs generally.

16 Q. Well, and that would be -- and that's 211
17 million from the baseline set in Washington compared
18 to total company; is that right?

19 A. The 211 million is a total company number,
20 and it is based on the baseline Washington, yes.

21 Q. Go back to my question of you on the risk
22 factor that's involved with either the approval or
23 the denial of the PCAM. Does the company's 11.125
24 return on equity, does that include any reduction,
25 taking into consideration the approval of the PCAM?

0575

1 In other words, is your ROE reduced as a result of
2 your belief that a PCAM will be approved, or perhaps
3 your witness's, Mr. Hadaway's belief?

4 A. And that is Mr. -- Mr. Hadaway is sponsoring
5 a recommended ROE of eleven and a quarter percent, as
6 you say. I'm sorry, and an eighth, based on a number
7 of models, but also cross-checked with a group of
8 comparable companies, all of which also have PCAMs.
9 So it's consistent with comparable companies that
10 also have PCAMs.

11 Q. And those comparable companies are all
12 comped to the existing ownership structure of
13 PacifiCorp? In other words, Scottish Power,
14 PacifiCorp up to Scottish Power, which is going to
15 change, at least I believe it's going to change,
16 perhaps by the end of March.

17 A. I can't really address the specifics of the
18 ownership structure. I don't think that the
19 ownership structure changes the exposure to net power
20 costs.

21 Q. But I guess my question was that Mr.
22 Hadaway's testimony was based on comparable
23 companies, which he believed -- which were all rated
24 A or A minus and were comped to PacifiCorp
25 specifically as it currently exists, currently

0576

1 stands?

2 A. It would be better if Mr. Hadaway were to
3 answer those questions.

4 Q. Do you know if -- how much the return on
5 equity that's -- that has been recommended by Mr.
6 Hadaway has been reduced, by what number? Is it 25
7 basis points or a hundred basis points or 10 or 15?

8 A. I don't know. He would have to address
9 that. I just know that the number is comparable to
10 comparable companies with power cost adjustment
11 mechanisms.

12 Q. Does the company believe that the decoupling
13 mechanism, as it's proposed, also reduces risk to the
14 company --

15 A. It reduces --

16 Q. -- in the recovery of its revenues?

17 A. It does reduce some risk, yes.

18 Q. I don't recall Mr. Hadaway's testimony
19 reflecting any discussion of decoupling and its
20 impact upon the risk of the company.

21 A. I don't believe he's quantified that.

22 Q. And so if a decoupling mechanism were to be
23 deployed in Washington, there would be -- should we
24 consider the impact of that on the return on equity
25 of the company?

0577

1 A. If it did have an impact on the return of
2 the company, I think it would be very small. It's
3 not -- it's very small compared to the level of net
4 power cost exposure that the company faces.

5 Q. Well, how much is at risk from the company
6 not recovering its fixed cost?

7 A. I haven't quantified that. I could do that.

8 Q. Would there be another witness that might be
9 able to do that?

10 A. We could probably do it as a bench request,
11 if you'd like.

12 Q. Let me think about that and discuss it with
13 the ALJs and the policy staff, and we'll see if we
14 can come up with a bench request --

15 A. Okay.

16 Q. -- if we believe it's worthwhile.

17 A. Okay.

18 COMMISSIONER OSHIE: I don't have any other
19 questions, but thank you.

20 THE WITNESS: Okay.

21 CHAIRMAN SIDRAN: No questions.

22 JUDGE RENDAHL: And I don't have any
23 questions, Ms. Omohundro, and neither does Judge
24 Mace.

25 THE WITNESS: Okay.

0578

1 JUDGE RENDAHL: So thank you very much.

2 We'll be off the record. You may step down.

3 (Recess taken.)

4 JUDGE RENDAHL: Let's be back on the record.

5 We're back on the record after a short break, and

6 we're going to start with cross-examination of Mr.

7 Kermode. Could you raise your right hand, please?

8 Whereupon,

9 DANNY KERMODE,

10 having been first duly sworn, was called as a witness

11 herein and was examined and testified as follows:

12 JUDGE RENDAHL: Okay. Let's get started.

13 MR. TROTTER: Thank you, Your Honor.

14

15 D I R E C T E X A M I N A T I O N

16 BY MR. TROTTER:

17 Q. Please state your name.

18 A. My name's Danny Kermode.

19 Q. And you're testifying on behalf of

20 Commission Staff today?

21 A. Yes, I am.

22 Q. Who is your employer?

23 A. The Washington Utilities and Transportation

24 Commission.

25 Q. What is your position with the Commission?

0579

1 A. I'm a regulatory analyst.

2 Q. And in your duties as a regulatory analyst,
3 did you prepare testimony and exhibits in this case
4 that are now enumerated 601-T through 612?

5 A. Yes, I did.

6 Q. If I asked you the questions that appeared
7 in 601-T, would you give the answers that appear that
8 there?

9 A. Yes.

10 Q. In the course of that testimony, you
11 referred to Exhibits 602 through 612. Are those
12 exhibits true and accurate, to the best of your
13 knowledge and belief, or have you relied on them in
14 representing what they purport to represent?

15 A. Yes.

16 MR. TROTTER: I move the exhibit of Exhibits
17 601-T and 602 through 612.

18 JUDGE RENDAHL: Any objections? No
19 objections. What have been marked as Exhibits 601-T
20 through 612 are admitted into the record.

21 MR. WOOD: Your Honor, I would also move at
22 this time the admission of cross-examination exhibits
23 613 through 615.

24 JUDGE RENDAHL: Is there any objection, Mr.
25 Trotter? With no objection, those Exhibits 613

0580

1 through 615 are also admitted into the record.

2 MR. TROTTER: I would also note for the
3 record, Your Honor, based on prior agreements of a
4 waiver of cross of other witnesses, this of course is
5 not binding on the bench, but it's my understanding
6 that the one adjustment remaining is property taxes.
7 The others have been -- the company has either
8 accepted or we've agreed to brief.

9 JUDGE RENDAHL: So the only issue you're
10 discussing this afternoon is property tax?

11 MR. TROTTER: That's my understanding.

12 MR. WOOD: That is correct, Your Honor.

13 JUDGE RENDAHL: And the remainder either
14 resolved or will be addressed on brief?

15 MR. WOOD: That is correct, also.

16 MR. TROTTER: I just say, if the
17 Commissioners, obviously, have questions in those
18 other areas, that's fine.

19 JUDGE RENDAHL: Okay. Let's go ahead.

20 MR. WOOD: Thank you.

21 JUDGE RENDAHL: Mr. Wood.

22

23 C R O S S - E X A M I N A T I O N

24 BY MR. WOOD:

25 Q. My name's Marcus Wood, I represent

0581

1 PacifiCorp, and I want to explore briefly this one
2 area of property taxes. And property taxes are
3 addressed, I believe, in your Exhibit 601-T, pages
4 three through nine; is that correct?

5 A. That is correct.

6 Q. If you could turn to page seven, and looking
7 at lines three through eight, am I correct that we
8 are -- that these lines address a particular item
9 known as -- which is known as additional property
10 taxes of \$1,215,888?

11 A. That is correct.

12 Q. And to put the -- make sure the number's
13 understood, the number we just cited is a total
14 company number; is that correct?

15 A. That is also correct.

16 Q. So the Washington allocation of that would
17 be somewhere in the eight percent range; is that
18 accurate?

19 A. That is correct.

20 Q. Okay. This property tax request by the
21 company is related to changes in the net book value
22 of its utility property; is that accurate?

23 A. I believe the way the company had presented
24 it -- I'll find my reference here. On page 7.2, the
25 company's -- I forget Mr. Wrigley's Exhibit 3.

0582

1 JUDGE RENDAHL: PMW-3, which now I'm
2 forgetting what it was marked as.

3 THE WITNESS: I actually have it.

4 MR. TROTTER: 193, Your Honor.

5 JUDGE RENDAHL: Thank you.

6 THE WITNESS: Exhibit 193, page 7.2, at the
7 bottom it has forecasted property tax expense
8 resulting from estimated capital additions. So I
9 took it initially when I -- in the filing itself that
10 it was a forecasted property tax expense, not changes
11 in the current.

12 Q. And going right to my question, you
13 understood it to be a result of increase in the
14 company's taxable plant, resulting from increases in
15 the company's taxable plant?

16 A. Yes, forecasted or otherwise, yes.

17 Q. Okay. And I assume you're familiar with Mr.
18 Wrigley's rebuttal testimony addressing this subject?

19 A. Yes.

20 Q. Okay. And the numbers that I'm going to
21 note are contained in Exhibit 195-T, page 19. You
22 probably have that?

23 A. Yes, I do.

24 Q. Okay. And do you dispute -- let's start
25 with do you have any reason to dispute Mr. Wrigley's

0583

1 assertion that net utility plant at the end of 2003
2 was \$8,120,324,805?

3 JUDGE MACE: Counsel, where are you? I'm
4 sorry, I didn't get the reference.

5 MR. WOOD: Page 19 of the rebuttal.

6 JUDGE MACE: Thank you.

7 JUDGE RENDAHL: Exhibit 195-T.

8 MR. WOOD: Yes.

9 THE WITNESS: Yes, I have no reason to
10 believe that that's not correct.

11 Q. And the historic test year used in this case
12 was the 12 months ending September 2004; is that
13 correct?

14 A. That's correct.

15 Q. And do you -- would you in any manner
16 dispute the conclusion that, thereafter, by the end
17 of 2004, the net plant of the company had increased
18 by more than \$330 million?

19 A. Based on those numbers, that also would be
20 correct, yes.

21 Q. Okay. And I want to make sure I know what
22 you are and are not contending here. Are you telling
23 the Commission that you would not expect a \$330
24 million increase in taxable plant to lead to a tax --
25 property tax increase?

0584

1 A. No, I'm not.

2 Q. I mean, for example, and I want to try to
3 figure out what's a reasonable way of approaching it.
4 Let's say you owned some land and you pay taxes on it
5 and you decide to build a \$300,000 house on that
6 land. Would you reasonably expect that your property
7 taxes would increase?

8 A. Yes.

9 Q. And even if you had to estimate the amount
10 of your property taxes after the addition, do you
11 think you could estimate it more closely than an
12 assumption that the property taxes would be unchanged
13 by the addition?

14 A. I'd probably do better than that. I would
15 probably research it, get the rates, and probably
16 specifically be able to determine what that is, yes.

17 Q. Yeah. And going back to Exhibit 195-T, at
18 page 19 again, do you have any reason to dispute that
19 the company, as stated on line 20, currently has a
20 1.2 percent composite property tax rate?

21 A. No, I actually looked at some of the data
22 and it looked real realistic, the proper amount.

23 Q. And would it be fair to say that if one
24 simply applied the rate to the increase in net plant
25 without exercising judgment, that you would get an

0585

1 increase not of in the neighborhood of 1.2 million,
2 but in the neighborhood of \$4 million?

3 A. That's correct.

4 Q. And so to the extent we talk about judgment
5 impinging on the known and measurable standard, isn't
6 the judgment that was made here, as you indicated
7 with your house that you would look more carefully,
8 that judgment being an analysis which suggested that
9 the company might be able to have its taxes increase
10 significantly less than the composite tax rate would
11 suggest? Isn't that the judgment that was used here?

12 A. I'm not sure what you're saying. Could you
13 restate that?

14 Q. Sure. If I had simply applied the composite
15 tax rate to my new tax base, I would have assumed not
16 a \$1.2 million increase in cost, but a \$4 million
17 increase in cost; correct?

18 A. That's correct.

19 Q. And to the extent I exercise judgment, it
20 was to moderate the amount of the increase; is that
21 correct?

22 A. So I guess that's where I'm not
23 understanding. Myself, as a property owner, I guess
24 that would work. As an analyst, my concern is the
25 correctness of the number. Also, I'm constrained by

0586

1 the known and measurable. So expense necessarily
2 isn't -- or expense is only reasonable to the extent
3 that's supported. Having a test of reasonableness
4 isn't having a proposed adjustment compared to
5 another method and then the smaller numbers now
6 assumed to be reasonable. Neither method has yet
7 been supported. There might be a method of proof,
8 but neither are supported at that time.

9 Q. Do you think it is a more reasonable
10 assumption that \$330 million worth of plant additions
11 will produce no increase in property tax?

12 A. No, I would expect some increase.

13 MR. WOOD: Thank you. I have no other
14 questions.

15 JUDGE RENDAHL: Mr. Trotter.

16 MR. TROTTER: Yes.

17

18 R E D I R E C T E X A M I N A T I O N

19 BY MR. TROTTER:

20 Q. Mr. Kermode, have you been testifying in
21 rate cases for a number of years?

22 A. Yes, I have.

23 Q. What is your understanding with respect to
24 the burden the company has to demonstrate whether a
25 particular cost level is appropriate?

0587

1 A. The company has the burden to provide some
2 type of support, detailed support, that directly
3 supports the number in which they're proposing, like
4 in this case, the adjustment 7.2 is proposing a
5 \$1,215,888 adjustment. I would reasonably expect
6 some type of computation or detail that would fit to
7 that number. It appears to be a calculated number,
8 it has the appearance of a calculated number, so
9 that's what I actually expected to get from the
10 company. So that's what I reasonably normally wait
11 for or work for.

12 Q. Are you generally familiar with how property
13 tax assessors assess property taxes?

14 A. Yes, I am.

15 Q. Is it your understanding that they use a
16 composite property tax rate for a company?

17 A. As it points out in the first part of Mr.
18 Wrigley's rebuttal testimony, he correctly discusses
19 the way the appraisers use different methods.
20 They'll use -- he cites two methods, Washington used
21 three methods to calculate some type of assessed
22 value. Then they take those assessed values from
23 those methods, then they weigh them, being obviously
24 different weights to the different methods, total
25 that up, and they get the new assessed value in that

0588

1 form.

2 Q. Is it correct to note that the Staff's
3 concern with respect to this adjustment is the --
4 whether the company has adequately quantified the
5 adjustment?

6 A. That's my concern, yes.

7 MR. TROTTER: No further questions. Thank
8 you.

9 MR. WOOD: Brief re-cross, Your Honor.

10 JUDGE RENDAHL: Very brief.

11

12 R E C R O S S - E X A M I N A T I O N

13 BY MR. WOOD:

14 Q. Look on the same exhibit, bottom of the page
15 we referred to, Mr. Wrigley's rebuttal, bottom of
16 page 19, top of page 20. You note, I take it, that
17 he explains that, under these multiple factors, the
18 company's conclusion that a cost approach will
19 receive no more than 50 percent weight. You saw
20 that?

21 A. Yes, sir.

22 Q. And that that would imply an increase of at
23 least \$1,983,308?

24 A. And that is just for that 50 percent
25 weighing of the cost method. I would expect there's

0589

1 also a 50 percent weighing in his example of income
2 method, which would appear to indicate a increase in
3 property tax of three million, and I guess that's
4 where my concern is.

5 Normally, in a proof, and I do this pretty
6 routinely in my analysis, I will approach a problem
7 in a certain direction, I'll build a model to compute
8 that, then I'll take a different approach and, under
9 theory, the two approaches should come up with the
10 same number. When they both come up with the same
11 number, I'm pretty confident that the approach I took
12 is a valid proof of the approach. What has happened
13 here is we have the amount in adjustment 7.2 that's
14 showing one-million-two. They have the proof showing
15 approximately four million. As an analyst, I would
16 have concerns that one of these methodologies is not
17 correct. I would expect the two numbers to be close
18 together.

19 Q. And did I understand you to say that when
20 you threw in the income approach, you would have
21 expected a number more like \$3 million?

22 A. I'm sorry, I misspoke. Probably four
23 million for a total, total, yes.

24 Q. Four million dollars. So if the proof
25 indicates a number that, weighing only one factor is

0590

1 1.9 million, weighing both factors is four million,
2 do you consider it unreasonable for the company to
3 ask for 1.2 million? In other words, is -- should
4 the companies --

5 MR. TROTTER: He's entitled to answer the
6 question that was asked, Your Honor.

7 MR. WOOD: Let me ask the question
8 differently. Let me rephrase the question.

9 MR. TROTTER: I'm addressing Your Honor. If
10 the question is withdrawn, that's fine.

11 JUDGE RENDAHL: Have you withdrawn the
12 question?

13 MR. WOOD: We withdraw. I would like to
14 rephrase the question.

15 Q. If the company provides demonstration,
16 reasonable demonstration of a cost larger than it is
17 requesting, is it reasonable -- but asked for less,
18 is it reasonable, therefore, to throw out the smaller
19 number?

20 A. Without being repetitive, I guess, being an
21 analyst, I assume that the company will ask for the
22 cost that it needs, and it will support those costs.
23 I'm bound by being an analyst to a known and
24 measurable standard. As I said before, the
25 reasonableness of a specific number, specifically

0591

1 Adjustment 7.2, is not validated by another
2 methodology that produces a larger amount.

3 And I guess that's -- that was the position
4 that was actually put into in my final
5 recommendation. I -- the company did not provide
6 support for one -- for the one-million-two, and in
7 rebuttal, they provide a methodology that produces
8 four million. The adjustment is 7.2 for 1.2 million.
9 That's why I disallowed or I recommend the
10 disallowance of the one-million-two, because the
11 one-million-two was not supported.

12 Q. Because it was less than the number that was
13 supported?

14 A. No, it's because the number itself, 7.2, was
15 not supported. That's why.

16 MR. WOOD: Thank you.

17 MR. TROTTER: Just one follow-up, Your
18 Honor.

19

20 R E D I R E C T E X A M I N A T I O N

21 BY MR. TROTTER:

22 Q. Is there any proof on this record that the
23 relevant tax assessors will assign a 50 percent
24 weight to the cost approach in assessing the taxable
25 property we're talking about?

0592

1 A. No, I have not seen anything.

2 JUDGE RENDAHL: Okay. Are there any
3 questions for the witness from the bench? Okay. I
4 have no questions. Thank you very much, Mr. Kermode,
5 you may step down. And our next witness is Mr.
6 Ward. Let's be off the record for a moment while we
7 change witnesses.

8 (Recess taken.)

9 JUDGE RENDAHL: Let's be back on the record.
10 And Mr. Ward, are you ready?

11 MR. WARD: Yes.

12 JUDGE RENDAHL: Okay. Raise your right
13 hand.

14 Whereupon,

15 CHRISTIAN WARD,
16 having been first duly sworn, was called as a witness
17 herein and was examined and testified as follows:

18 JUDGE RENDAHL: Okay. Please go ahead, Mr.
19 Trotter.

20

21 DIRECT EXAMINATION

22 BY MR. TROTTER:

23 Q. Please state your name.

24 A. Christian Ward.

25 Q. And you're an employee of the Commission?

0593

1 A. Correct.

2 Q. What is your job title?

3 A. I'm a regulatory analyst.

4 Q. And in your duties as a regulatory analyst,
5 did you prepare testimony and exhibits in this case?

6 A. Yes, I did.

7 Q. Referring you to Exhibit 621-T, is that your
8 prepared direct testimony?

9 A. Yes.

10 Q. And if I asked you the questions that appear
11 there, would you give the answers that appear there?

12 A. Yes, I would.

13 Q. And in that testimony, you refer to Exhibits
14 622 and 623. Were those prepared by you?

15 A. Yes, they were.

16 Q. And are they correct, as revised?

17 A. Yes.

18 MR. TROTTER: I move the admission of
19 Exhibits 621-T, 622 and 623.

20 JUDGE RENDAHL: Is there any objection?

21 MR. WOOD: No objection, Your Honor.

22 JUDGE RENDAHL: Hearing no objection, what's
23 been marked as Exhibits 621-T through 623 will be
24 admitted. Anything further, Mr. Trotter?

25 MR. TROTTER: No, the witness is available

0594

1 for cross.

2 JUDGE RENDAHL: Okay. Mr. Ward -- Mr. Wood.
3 Wood and Ward.

4 MR. WOOD: Thank you, Your Honor.

5

6 C R O S S - E X A M I N A T I O N

7 BY MR. WOOD:

8 Q. Mr. Ward, I'm going to ask you questions
9 only about a small portion of your testimony, and
10 that's that portion on Exhibit 621-T, beginning at
11 the bottom of page 21 and relating to RTO expenses.

12 Am I correct that you have recommended the
13 company not be allowed to recover the RTO-related
14 expenses that it has requested in this case?

15 A. My adjustment removes RTO expenses related
16 to Account 930.

17 Q. And as stated on page 22 of Exhibit 621-T,
18 the Washington-allocated portion of RTO expenses that
19 we're discussing is \$75,329 in this case; is that
20 correct?

21 A. That's correct.

22 Q. And the reason you give, I take it, again,
23 line -- page 22, lines four through eight, is that
24 these amounts should not be included, because the
25 company has not demonstrated that Washington retail

0595

1 customers have benefited from these efforts or that
2 these expenses are in the best interest of Washington
3 ratepayers. Is that correct?

4 A. That's correct.

5 Q. Okay. Let me ask -- see if we can agree on
6 some facts that may relate to the interest of
7 Washington ratepayers here. First, would you agree
8 that, next to the Bonneville Power Administration,
9 PacifiCorp has the largest transmission system in the
10 Northwest?

11 A. I do not know that.

12 Q. Okay. In making your recommendation, you're
13 not aware of the size of the PacifiCorp transmission
14 system?

15 A. I based my adjustment on -- and my
16 calculation on Staff's position.

17 Q. On Staff's position?

18 A. Correct.

19 Q. Is this your position, also?

20 A. Yes, it is.

21 Q. Okay. Would you accept, subject to check,
22 that PacifiCorp has the largest transmission system
23 in the Northwest next to BPA?

24 A. Yes.

25 Q. Okay. Are you aware that PacifiCorp is

0596

1 regulated by the Federal Energy Regulatory
2 Commission, among other commissions?

3 A. Yes.

4 Q. Are you aware of -- that the FERC is keenly
5 interested in having utilities under its jurisdiction
6 make reasonable efforts to pursue reasonable
7 transmission organizations?

8 A. I would say yes, subject to check.

9 Q. And are you also aware of FERC placing
10 different standards on whether it allows a utility to
11 have market-based rates, depending on the presence or
12 absence of regional transmission associations? Are
13 you aware -- organizations. Are you aware of
14 anything about that?

15 A. No, I'm not.

16 Q. Okay. Is it -- does Washington rely on --
17 is Washington's revenue requirement impacted by the
18 prices that Pacific -- for which Pacific must pay to
19 buy or to sell power in the market?

20 A. Can you repeat your question?

21 Q. Sure. Is the revenue requirement in
22 Washington impacted by the prices that PacifiCorp
23 must pay to buy power or gets for the sale of power
24 in wholesale markets?

25 A. The best person to answer that would be Mr.

0597

1 Buckley.

2 Q. Okay. If PacifiCorp -- would it be
3 reasonable for PacifiCorp to not be active in RTO
4 development and perhaps defer to what FERC or other
5 companies would like to do for RTO development?
6 Would that be reasonable?

7 A. Again, Mr. Buckley would be the best to
8 answer that question.

9 Q. Okay. So in making the statement about the
10 best interest of Washington ratepayers, you don't
11 have -- do you have an opinion on whether it is
12 prudent and reasonable for PacifiCorp to be
13 participating in RTO activities?

14 A. I would direct that question, as well, to
15 Mr. Buckley.

16 Q. Do you have an understanding -- do you
17 believe you'd be a witness that would be able to
18 testify as to whether formation -- different rules
19 for forming an RTO interest would impact Washington
20 customers differently?

21 A. I would not be the witness to be able to
22 answer that question.

23 Q. And in recommending the disallowance of --
24 do you understand that RTO expenses of PacifiCorp are
25 ongoing, that is, that PacifiCorp continues to

0598

1 participate and incur expenses related to RTO
2 activities?

3 A. Yes, I'm aware that PacifiCorp is continuing
4 or their expenses are ongoing. However, as Mr.
5 Wrigley pointed out in his rebuttal testimony on page
6 24 and 25, the RTO is not operating in Washington.

7 Q. All right. Well, do you -- if these costs
8 are disallowed, do you believe it would be reasonable
9 and prudent for the company to stop participating in
10 RTO efforts?

11 A. I think the costs need to be prudently
12 reviewed.

13 Q. I'm sorry. Let me repeat the question. Do
14 you believe, if these costs are disallowed, that it
15 would be prudent and reasonable, from the interest of
16 Washington customers, for the company to cease
17 participating in RTO efforts?

18 A. Mr. Buckley would be better able to answer
19 that question.

20 Q. To the extent that it is concluded that
21 participation in an RTO, or at least not dropping
22 out, continuing to participate in the forum is
23 prudent, is the effect of your recommendation to mean
24 that the company is put at risk that it will never
25 recover the cost of that activity?

0599

1 MR. TROTTER: Your Honor, I believe that --
2 I would ask that question be rephrased. I don't
3 think it was actually a question. There were two
4 prepositional phrases there. Could I ask that it be
5 rephrased?

6 Q. I'll say it again. If -- would you agree
7 that the effect of your recommendation would be that,
8 without regard to whether the participation of
9 PacifiCorp in RTO activities was appropriate for
10 Washington customers or not, PacifiCorp would be put
11 at risk that it would never recover the cost of this
12 ongoing activity?

13 A. I believe Mr. Buckley would be able to
14 answer that question the best.

15 MR. WOOD: Thank you. I have no other
16 questions.

17 JUDGE RENDAHL: Any redirect, Mr. Trotter?

18 MR. TROTTER: Just briefly.

19

20 R E D I R E C T E X A M I N A T I O N

21 BY MR. TROTTER:

22 Q. Were you here when Mr. Wrigley testified?

23 A. Yes, I was.

24 Q. And did you recall him acknowledge that, on
25 prior occasions, Staff has recommended the company

0600

1 defer these costs and collect them when the RTO is
2 actually up and running?

3 A. Yes.

4 Q. Did the company do that?

5 A. Not at this time.

6 MR. TROTTER: I have nothing further. Thank
7 you.

8 JUDGE RENDAHL: All right. Anything
9 further, Mr. Wood?

10 MR. WOOD: Nothing further.

11 JUDGE RENDAHL: Anything from the Bench?
12 Commissioner Jones.

13

14 E X A M I N A T I O N

15 BY COMMISSIONER JONES:

16 Q. Welcome, Mr. Ward. I understand this is
17 your first time --

18 A. Yes, it is.

19 Q. -- on the stand. How do you feel?

20 A. Great.

21 Q. I just have one brief question. Have you
22 had a chance, because there are two groups, Staff and
23 ICNU, that addressed this question of RTO expense,
24 have you had a chance to review ICNU's witness, Mr.
25 Selecky, I think it's in 301-T, his testimony on this

0601

1 subject?

2 A. Not his testimony. I reviewed his rebuttal
3 testimony.

4 Q. His rebuttal testimony.

5 MR. TROTTER: Just for the record, Your
6 Honor, he may just be confused. Are you referring to
7 the testimony Mr. Selecky filed, if I might?

8 COMMISSIONER JONES: That's what I'm
9 referring to.

10 MR. TROTTER: Maybe if you can just refer to
11 the exhibit he just looked at, it might clarify it.

12 Q. Okay. I'm referring to that, Mr. Ward,
13 because the numbers that Mr. Selecky uses, I'm not
14 sure if it's direct or rebuttal, the numbers that he
15 comes up with for this proposed disallowance are
16 quite a bit different than the ones you propose?

17 A. Yes, I -- my numbers come from only one
18 account, and that's Account --

19 Q. Is that Account 901?

20 A. That is Account 921 and 923.

21 Q. Okay. Do you know what Mr. Selecky -- which
22 accounts Mr. Selecky does in his testimony, because
23 his number -- let me cut to the chase here. His, as
24 I understand it, his proposed total system-wide
25 reduction in cost, cost to be removed of RTO

0602

1 expenses, is 2.619 million. You are proposing for
2 Staff a reduction of 905,000, which result in
3 Washington allocation, Staff's -- your proposal is
4 75,239, and ICNU's is 226,000 for the Washington
5 allocation. Am I correct, roughly?

6 A. Yes, that's correct.

7 Q. What I'm trying to get at, and maybe I will
8 address this to Mr. Selecky, is what accounts is he
9 proposing to eliminate, as opposed to your
10 recommendation? Does it relates to accounts or the
11 number of years in which these RTO expenses have been
12 incurred?

13 A. Upon just reviewing ICNU's Data Request 3.2,
14 Mr. Selecky has a total -- the company's response has
15 a total of 2.6 million at the bottom, and I believe
16 that is where he received his numbers from, but I
17 would direct the question to Mr. Selecky for
18 confirmation.

19 JUDGE RENDAHL: Just for clarification of
20 the record, is that data request response in the
21 record at this point, do you know, Mr. Trotter?

22 MR. TROTTER: Let me check.

23 JUDGE RENDAHL: I note that there's a --
24 what's been marked as Exhibit 317 is a response to
25 ICNU Data Request 3.20, and that that's in Mr.

0603

1 Selecky's -- it's one of his exhibits, but I'm not
2 sure. Is that what you're referring to, 3.20 or 3.2?

3 THE WITNESS: 3.20.

4 JUDGE RENDAHL: So that would be Exhibit 317
5 in our record.

6 THE WITNESS: Okay.

7 COMMISSIONER JONES: So has that been
8 admitted into the record yet?

9 JUDGE RENDAHL: It has not been admitted,
10 but it's been marked. It's in his pre-filed
11 exhibits. Mr. Selecky will not be appearing until
12 February 2nd or 3rd, most likely the 3rd.

13 COMMISSIONER JONES: That was my only point.
14 Thank you.

15 JUDGE RENDAHL: Are there any other
16 questions for this witness from the bench? Okay.
17 Thank you, Mr. Ward. You're excused. You may sit
18 down. And let's be off the record very briefly while
19 we change to our last witness, Mr. Schooley.

20 (Recess taken.)

21 JUDGE RENDAHL: Let's go back on the record
22 for the purpose of taking cross-examination of Mr.
23 Schooley. Mr. Schooley, would you raise your right
24 hand, please?

25 Whereupon,

0604

1 THOMAS SCHOOLEY,
2 having been first duly sworn, was called as a witness
3 herein and was examined and testified as follows:

4 JUDGE RENDAHL: Okay. Please go ahead, Mr.
5 Trotter.

6 MR. TROTTER: Thank you.

7

8 D I R E C T E X A M I N A T I O N

9 BY MR. TROTTER:

10 Q. Please state your name.

11 A. I'm Thomas Schooley.

12 Q. And you're testifying on behalf of
13 Commission Staff in this proceeding?

14 A. Yes.

15 Q. Are you employed by the Commission?

16 A. As of yesterday, I was.

17 Q. And what is your title?

18 A. Regulatory analyst.

19 Q. Are you also employed by the Commission
20 today?

21 A. So far.

22 Q. Referring you to Exhibit 631-T, is that your
23 direct testimony?

24 A. Yes.

25 Q. Do you have any corrections to make in that

0605

1 testimony?

2 A. Yes, I do. Given that on -- I made a small
3 change on Exhibit 637, I should make the same change
4 in my testimony on page 48. On line 17, the amount
5 negative 16,158,520 should be changed to 16,146,520.
6 That's all.

7 Q. Now, Mr. Ward made some changes in his
8 figures through errata. Did those get tracked
9 through to your exhibits yet?

10 A. No, they haven't. We will update those on
11 brief.

12 Q. But his testimony contains the expense level
13 change?

14 A. I think so, yes.

15 MR. WOOD: If I might make an inquiry. If
16 these will change the admitted exhibits, could we get
17 them updated before the hearing ends, so that when we
18 all respond to them in our own briefs, we have the
19 right numbers?

20 JUDGE RENDAHL: That seems to be a better
21 way of doing it.

22 MR. TROTTER: It's a very, very small
23 change, but we will attempt to accommodate.

24 JUDGE RENDAHL: Which exhibits would that
25 flow through to?

0606

1 MR. TROTTER: It flows through the major
2 rate-making exhibit. I think the changes were to --

3 JUDGE RENDAHL: 633?

4 THE WITNESS: 633.

5 MR. TROTTER: Yeah, but the changes are very
6 nominal, they don't affect the bottom line, but if
7 Counsel insists upon it, we can certainly provide
8 that.

9 JUDGE RENDAHL: Is it possible to just do
10 the replacement pages that would be affected or do
11 you need to redo the entire exhibit?

12 THE WITNESS: After I redo them, it's just a
13 question of how many pages you want printed, so --

14 JUDGE RENDAHL: Well, I think we only need
15 the pages replaced that are actually modified.

16 THE WITNESS: I can look to see what that
17 is. Might be easier to replace the whole thing.

18 JUDGE RENDAHL: Well, I leave that up to
19 you, but I think it would be useful to have that
20 before February 3rd.

21 Q. Okay. With that correction, Mr. Schooley,
22 if I asked you the questions that appeared in Exhibit
23 631-T, would you give the answers that appear there?

24 A. Yes.

25 Q. And in the course of that testimony, you

0607

1 referred to Exhibits 632 through 640. Were those
2 prepared by you or did you rely on them as reliable
3 evidence?

4 A. Yes.

5 MR. TROTTER: I would move the admission of
6 Exhibits 631-T through 640.

7 JUDGE RENDAHL: Is there any objection, Mr.
8 Wood?

9 MR. WOOD: No objection.

10 MR. TROTTER: The witness is available for
11 cross.

12 JUDGE RENDAHL: I will admit Exhibits --
13 what's been marked as Exhibit 631-T through 640. And
14 Mr. Wood, did you wish to move the admission of 641?

15 MR. WOOD: I do, Your Honor.

16 JUDGE RENDAHL: Is there any objection, Mr.
17 Trotter?

18 MR. TROTTER: No.

19 JUDGE RENDAHL: All right. Well, what's
20 been marked as Exhibit 641 will be admitted, as well.
21 Please go ahead, Mr. Wood.

22 MR. WOOD: Thank you.

23

24 C R O S S - E X A M I N A T I O N

25 BY MR. WOOD:

0608

1 Q. Mr. Schooley, my questions are all directed
2 at cash working capital.

3 A. Darn.

4 Q. And to identify the testimony, it relates to
5 your testimony identified as 631-T, starting at page
6 43.

7 A. Okay.

8 Q. And again, just to make clear what the issue
9 is here, Pacific has requested various amounts of
10 positive cash working capital in its revenue
11 requirement; is that correct?

12 A. Yes, along with a number of items which I
13 would consider working capital that are directly
14 entered into rate base, such as materials and
15 supplies.

16 Q. And you recommend that the company receive a
17 zero as it's cash working capital in this case?

18 A. I recommend that there has not been a
19 demonstration of the need for a working capital
20 adjustment, so I removed the items relating to
21 working capital that the company claims are working
22 capital.

23 Q. Does that result in your recommendation
24 being a zero working capital allowance for the
25 company?

0609

1 A. From the company's point of view, I suppose.

2 Q. Okay. Turning to page 44, line five, you
3 define cash working capital as funds needed to
4 sustain a company in its day-to-day operations. Do
5 you see that?

6 A. Yes.

7 Q. And you also define it, let me see where --
8 oh, you say accounting textbooks define working
9 capital as current assets less current liabilities;
10 correct?

11 A. Yes.

12 Q. To put that in more concrete terms, is
13 working capital essentially needed, if it's needed,
14 because bills may be due for payment before related
15 revenues are received? Is that the reason one would
16 need working capital?

17 A. Not entirely. There's also the issue of how
18 much cash is on hand to pay immediate needs, how much
19 you have, inventory or other items, which can be
20 quickly turned into cash in order to supply funds as
21 they are needed or even sooner, so --

22 Q. But basically, bills have to be paid with
23 cash, not with accounts receivable; is that correct?

24 A. In general, that's -- I know, with many
25 power companies, there are netting agreements such

0610

1 that the purchases of power they make are netted
2 against the sales of electricity to the same company,
3 so they're -- in essence, that's a swap, as well.

4 Q. To put it in concrete terms, if I had to pay
5 all my bills in the first day of the month, but
6 didn't get paid for my work for the last day of the
7 month, I'd need some savings to make my payments
8 before I got my income; is that fair?

9 A. Or you'd pay them a day late the next first
10 day of the month, when you got your --

11 Q. If I paid them timely. Turning to page 45,
12 and looking at how you approach working capital, you
13 use, I understand, what you refer to as the investor
14 supplied working capital, the ISWC method?

15 A. Yes.

16 Q. Is that fairly described as a type of a
17 balance sheet approach?

18 A. Yes.

19 Q. And what it attempts to do is compare what
20 you referred to as current assets versus current
21 liabilities; is that correct?

22 A. That's the textbook method of doing such,
23 and when you compare the company's -- PacifiCorp's
24 current assets to its current liabilities, you see
25 that the current liabilities exceed the current

0611

1 assets, and therefore it's not -- that indicates
2 there may be negative investor supplied working
3 capital.

4 Q. Now, this issue -- am I correct this issue
5 hasn't been teed up for the Commission for PacifiCorp
6 for a long time. Wasn't the last time this was teed
7 up back in the 1980s?

8 MR. TROTTER: Excuse me, Your Honor. Could
9 I ask for clarification on what, quote, this issue,
10 unquote, is?

11 Q. I'm sorry. Is the last -- when was the last
12 time the Commission was called on to rule on the
13 appropriate method of determining cash working
14 capital for PacifiCorp?

15 A. The last fully litigated rate case for
16 PacifiCorp was in 1986, and I don't know if it was at
17 issue then in that case. There may not have been a
18 Commission decision on that until perhaps the '82 or
19 '83 cases prior to that.

20 Q. Okay. And was it -- was it subsequent to
21 that decision, for example, that the Federal Energy
22 Regulatory Commission adopted lead-lag studies as the
23 preferred method of determining cash working capital?

24 A. I don't know when they adopted that method.
25 I know it's never been accepted in this state.

0612

1 Q. Which -- just curiosity, which other
2 jurisdictions would you claim use the type of
3 approach that you use to compute cash working
4 capital?

5 A. I don't know.

6 Q. Don't know -- do you know of any?

7 A. I haven't researched whether there are or
8 not.

9 Q. Let's turn to Exhibit 637, which is your
10 Exhibit TES-7.

11 A. Yes.

12 Q. This exhibit sets out how you make your
13 balance sheet accounting for cash working capital for
14 PacifiCorp; is that correct?

15 A. Yes.

16 Q. Now, I want to try to figure out which of
17 these numbers relate to cash or to monies to pay
18 current liabilities. For example, if we could turn
19 to page five of six, and if you'll look at line 11,
20 retained earnings, now, those --

21 COMMISSIONER OSHIE: Excuse me, Counsel, I
22 hate to interrupt, but we're on Exhibit 637, and I
23 don't find a page five of six.

24 JUDGE RENDAHL: Yeah, I think there was a
25 confusion with the revision. The revision was titled

0613

1 pages one of two, and the original exhibit was pages
2 one of six, and the revision was intended to revise
3 only the first two pages.

4 COMMISSIONER JONES: Oh, I see.

5 JUDGE RENDAHL: So you may have them after
6 -- let's be off the record for a moment.

7 (Discussion off the record.)

8 JUDGE RENDAHL: Let's be back on the record.

9 Q. If we turn first to, on page five of six, to
10 line 11, retained earnings?

11 A. Yes.

12 Q. Now, those retained earnings, for example,
13 include sums that have been billed to customers, but
14 not yet -- where the funds have not yet been
15 received; is that correct?

16 A. You have to go a long ways up the balance
17 sheet and the income statement to reach that
18 conclusion. If by that you mean that there have been
19 expenses incurred in the current period and there's
20 an accounts payable accrued and those expenses are
21 then -- flow through eventually when the books are
22 closed, you could say that, but in reality, the
23 expenses occurred there are offset by the accounts
24 payable at the end of the period.

25 Q. Let me go back and repeat the question. You

0614

1 see the line we're talking about is retained
2 earnings?

3 A. Yes, retained earnings are the accumulated
4 profits of the corporation and --

5 Q. That is correct. And are the accumulated --

6 MR. TROTTER: Excuse me, Your Honor. I
7 would ask that the witness be given an opportunity to
8 complete his answer.

9 MR. WOOD: Excuse me.

10 THE WITNESS: I'm done.

11 Q. And retained -- my question is a simple one.
12 Do retained earnings -- retained earnings, this came
13 from FERC Form One, this number; correct?

14 A. Yes.

15 Q. And it's what we know is an accrual number,
16 not a cash number; correct?

17 A. Retained earnings are not an accrual
18 account. They're in the equity section.

19 Q. They are earnings that have been accrued,
20 rather than reflecting cash in the door?

21 A. They are earnings that have been earned.

22 Q. Okay. Then let me go back to my original
23 question. Do those earnings include revenues from
24 amounts that have been billed where the funds have
25 not yet been received by the company?

0615

1 A. Well, before you said expenses, and now
2 you're saying revenues.

3 Q. I'm sorry if I misstated.

4 A. Yes.

5 Q. And do they also include amounts for service
6 -- revenues from service that have not even been
7 billed yet?

8 A. Yes, I believe they would.

9 Q. Okay. And we'll agree that none of these
10 amounts would be available to pay bills currently;
11 correct?

12 A. That's why they're in my calculation.

13 Q. Okay. Now, if we look at line 40 -- make
14 sure I have the right number. Sorry. If you'll turn
15 back to page four of six. I apologize. Is it also
16 correct that, for certain other accounts, let's take,
17 for example, customer accounts receivable, this
18 represents receivables that are -- that the company
19 does not have; correct? That is, this is money that
20 the company has not yet received?

21 A. Yes, the customers owe that amount of money,
22 which is why you won't find it in my average invested
23 capital. That is part of the working capital.

24 Q. The same is true for line 41, other accounts
25 receivable, and line 49, rents receivable; correct?

0616

1 A. Yes.

2 Q. Am I correct that even though cash working
3 capital -- even though this is supposedly a
4 calculation of cash working capital, that most of the
5 items on your balance sheet do not represent either
6 current cash out or current cash in?

7 A. I'm going to back up to the beginning of
8 your question there, where you say even though these
9 represent cash working capital. That's your term.
10 That's not our term. Our term is investor supplied
11 working capital.

12 Q. If you turn back to your testimony --

13 MR. TROTTER: Excuse me. Was the witness
14 finished with his answer?

15 Q. Sorry.

16 A. Yeah, I think there is a difference between
17 how the company is trying to calculate cash working
18 capital versus our use of investor supplied working
19 capital. Cash working capital does not necessarily
20 mean investors are supplying that cash, and that's a
21 major difference between the company's lead-lag study
22 and what it's measuring versus the balance sheet
23 approach and what we claim is investor supplied or
24 not supplied capital.

25 Q. If you'd turn to page 44 of your Exhibit

0617

1 TES-1T, which I believe is 631-T, line five.

2 MR. TROTTER: Which page, excuse me?

3 Q. Page 44, line five. You refer to cash
4 working capital. Are you now telling us that you are
5 not trying to compute cash working capital?

6 A. Yes.

7 Q. Okay. So whatever the balance sheet does,
8 it does not give you the company's cash working
9 capital; is that correct?

10 A. You would have to define what cash working
11 capital means to me. It does give you what the
12 working capital, the investors supply.

13 Q. And --

14 A. There are many other forms.

15 Q. And is it correct that your -- the exhibit,
16 the balance sheet approach divorces this investor
17 supplied working capital from any actual cash
18 requirements of the company?

19 A. No, as a matter of fact, I think it marries
20 the notion that Mr. Hahne, in Accounting for Public
21 Utilities claims, that the measure is to figure out
22 what working capital the investors supply, not just
23 what's the difference between cash receipts and cash
24 payments.

25 Q. And is it fair to say that you do that by

0618

1 comparing a series of accounts which reflect not
2 current cash income or outflow, but amounts that are
3 accrued and may be received or paid sometime in the
4 future?

5 A. Could you restate that, please?

6 Q. Yes. Is it fair to say that your balance
7 sheet approach compares a series of accounts that do
8 not show current cash available for payment and
9 required for payment, but instead show accrued
10 amounts that may be collected or paid sometime -- may
11 be converted to cash sometime in the future?

12 A. Both. It includes cash, it includes cash
13 available, it includes temporary cash investments, it
14 includes everything as working capital that is either
15 cash or near term cash, and that is the essence of
16 working capital.

17 Q. And that -- and you include among that items
18 such as revenues from service rendered, but not yet
19 billed?

20 A. Yes, and that would be available within the
21 near term.

22 Q. Can I pay current bills with something that
23 will be available in the future?

24 A. Yes.

25 Q. Pleased to know that.

0619

1 A. You use your credit card every day.

2 Q. Go ahead.

3 MR. TROTTER: Your Honor, that was not a
4 question. I move it to be stricken.

5 MR. WOOD: I withdraw it.

6 Q. And is it fair to say that your view of --
7 that this balance sheet constitutes the cash working
8 capital that you're not able to tell us of another
9 jurisdiction that holds the same view?

10 A. I don't think that's a relevant issue.

11 Q. Is the answer no?

12 A. I don't know if there are or are not.

13 MR. WOOD: Thank you. I have no other
14 questions.

15 JUDGE RENDAHL: Is there any redirect, Mr.
16 Trotter?

17 MR. TROTTER: Yes, Your Honor. Thank you.

18

19 R E D I R E C T E X A M I N A T I O N

20 BY MR. TROTTER:

21 Q. Mr. Schooley, is the working capital
22 adjustment a rate base item?

23 A. Yes.

24 Q. And under generally accepted rate-making
25 principals, is the rate base what investors are

0620

1 entitled to earn a return on?

2 A. Yes.

3 Q. And is that one reason why it's important to
4 measure the working capital that investors supply?

5 A. Yes, it is.

6 Q. And what would be the consequence if working
7 capital were included in rate base that investors did
8 not supply?

9 A. Company would be earning a return on amounts
10 that other providers of capital, such as vendors,
11 would be providing.

12 Q. You were asked some questions about retained
13 earnings and some customer accounts receivable that
14 was not immediately available to pay bills, and you
15 said that's why they are included in the calculation.
16 Do you recall that answer?

17 A. Yes.

18 Q. Could you explain how they're included and
19 why it is fair to includethem in the manner you have
20 included them?

21 A. Okay. The Exhibit 637 in the presentation
22 of the average invested capital compared to average
23 investments is taking everything that is not working
24 capital and everything that's not in the calculation
25 is working capital. So retained earnings are not

0621

1 working capital; they are included in line two of my
2 -- combined with common equity.

3 So the measurement, the residual of my
4 calculation on line 102 shows the negative 16 million
5 as what the sum of the working capital accounts would
6 also be, because they would then be the opposite
7 side, or the accounts left off of this calculation.
8 So when asking about retained earnings, no, that's
9 not working capital. When asking about customer
10 accounts receivable, yes, that is working capital,
11 and that is -- or accounts payable from vendors.
12 That is working capital. That's supplying goods that
13 the vendors are providing the capital, not the
14 investors.

15 Q. Okay. So it's important to include those
16 items to get an accurate measure of investor supplied
17 working capital?

18 A. Yes.

19 MR. TROTTER: I have nothing further. Thank
20 you.

21 JUDGE RENDAHL: Anything further, Mr. Wood?

22 MR. WOOD: No, Your Honor.

23 JUDGE RENDAHL: Okay. Is there anything --
24 any questions from the Bench for this witness?

25

0622

1 E X A M I N A T I O N

2 BY CHAIRMAN SIDRAN:

3 Q. Mr. Schooley, I understand you are also the
4 Staff's witness with respect to compensation?

5 A. Yes.

6 Q. And I understand from your testimony you've
7 addressed issues related to incentive pay and your
8 view regarding financial performance as part of
9 compensation; correct?

10 A. Yes.

11 Q. I'm interested to know whether you have
12 taken a look at PacifiCorp's executive compensation
13 and how it relates to comparable utilities, the
14 overall reasonableness of the executive compensation
15 of the company?

16 A. Not so much in a comparative sense, no. I
17 didn't delve into that aspect of it.

18 Q. Did -- well, beyond what is in your direct
19 testimony, regarding incentives and financial
20 performance, did you examine the reasonableness of
21 the executive compensation just within the context --
22 beyond that issue within the context of the -- of
23 PacifiCorp itself?

24 A. I did not look into it. It's probably safe
25 to say it's more than our collective salaries.

0623

1 Q. Now, my understanding is, just from the --
2 this would be in Exhibit 13, I think part of Mr.
3 MacRitchie's, if I'm not mistaken, testimony. In the
4 10-K, which is Exhibit 13, it lays out in the 10-K
5 the executive compensation; is that correct?

6 A. Yes.

7 Q. And I don't suppose you have that in front
8 of you?

9 A. Not in front of me.

10 JUDGE RENDAHL: I can provide it.

11 THE WITNESS: It's got a lot of zeroes in
12 it, I suppose. Okay. Thank you.

13 Q. And it lists in the 10-K number of
14 executives. Just looking for a moment at the CEO,
15 Ms. Johansen's compensation, am I correct that, in
16 2003, the compensation was, in round numbers,
17 \$650,000, in combination of salary and bonuses?

18 A. Yes.

19 Q. And there are also some shares that are part
20 of -- I don't pretend to understand the details, but
21 there's also some sort of incentive package that
22 includes shares in the company?

23 A. Yes.

24 Q. And that is approximately 10,000 shares in
25 2003?

0624

1 A. In 2003, is that --

2 Q. For Ms. Johansen?

3 A. It would be more like 70,000.

4 Q. Well, let me take a look at it.

5 A. Oh, those are dollars. I'm not sure. The
6 columns says securities underlined options.

7 MR. TROTTER: The Chairman may be referring
8 to Column G.

9 CHAIRMAN SIDRAN: Thank you, yes.

10 THE WITNESS: Okay. Scottish Power shares,
11 9,000.

12 Q. Do you have any idea what -- I'm looking at
13 Column G, that's correct, in 2003. And do you have
14 any idea what the valuation is of those shares,
15 approximately?

16 A. If I had to guess, I think their shares are
17 in the \$20 range per ADR, and I don't know -- per
18 American Depository Receipts. I don't know if
19 they're directly translatable.

20 Q. And I see on this exhibit, with regard to
21 the year 2005, the compensation is approximately \$1.2
22 million of salary and bonuses?

23 A. Right.

24 Q. And approximately 20,000 shares in Column G?

25 A. Yes.

0625

1 Q. Has Staff -- did Staff evaluate the overall
2 reasonableness of the rate of increase and the
3 compensation for the company's executives between the
4 last rate case and this rate case?

5 A. No, we did not.

6 Q. Did the Staff examine any of the provisions
7 related to the severance package that apparently is
8 related to the proposed acquisition of the company by
9 MidAmerican?

10 A. We've seen no information about that.

11 CHAIRMAN SIDRAN: Thank you. That's all I
12 have.

13 JUDGE RENDAHL: Any other questions from the
14 Bench for this witness?

15 CHAIRMAN SIDRAN: I'd like to make a bench
16 request, and we can frame it, but I would like to
17 have the company provide the information relevant to
18 any severance packages or compensation that will be
19 provided as a result of the MidAmerican acquisition
20 if that should close.

21 JUDGE RENDAHL: So Bench Request Number 17
22 would be information -- this is to the company,
23 information relative to the severance package for Ms.
24 Johansen should the --

25 CHAIRMAN SIDRAN: I don't want to limit it

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1 to Ms. Johansen. I'd like to know --

2 JUDGE RENDAHL: To all severance packages.

3 CHAIRMAN SIDRAN: -- the entire severance
4 package available to the executives of PacifiCorp in
5 the event that MidAmerican's acquisition closes.

6 JUDGE RENDAHL: All right. So I have
7 information relative to severance -- the severance
8 package available to all executives of PacifiCorp in
9 the event the acquisition by MidAmerican closes, and
10 that's Bench Request 17.

11 CHAIRMAN SIDRAN: Thank you.

12 MR. TROTTER: If I could just have one
13 follow-up on that?

14

15 R E D I R E C T E X A M I N A T I O N

16 BY MR. TROTTER:

17 Q. Mr. Schooley, if you know, would any of
18 those severance costs be included in the test year
19 results of operations?

20 A. No, they wouldn't.

21 MR. TROTTER: That's all I have, Your Honor.

22 JUDGE RENDAHL: Okay. I do have one
23 question. I'm sorry. Commissioner Jones.

24

25 E X A M I N A T I O N

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1 BY COMMISSIONER JONES:

2 Q. Let me go back to working capital for a
3 minute.

4 A. Oh, thank you.

5 Q. You're welcome. I'm struck on page 44 of
6 your testimony where it shows that the PacifiCorp's
7 balance sheet at the end of September, September 30,
8 2004, shows current assets of 944,450 million, and
9 liabilities of one billion -- is that a B --
10 1,594,628,000?

11 A. Yes.

12 Q. Then, at the end of your sentence, I think
13 I'm beginning to understand the different types of
14 ways of computing working capital, and the one that
15 you prefer is investor supplied working capital. The
16 method the company is proposing is a lead-lag study,
17 but when you say this indicates that investor
18 supplied working capital may be negative, why do you
19 give a conditional type answer? Why isn't it just is
20 negative? Why are you saying may be negative?

21 A. I think we go beyond simply looking at the
22 current assets and current liabilities to getting
23 into what are the -- what is the invested capital and
24 what are the investments in other non-working capital
25 related items. So we pulled more items into the

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1 equation, so I think, in general, the investor
2 supplied working capital would be a smaller number
3 than just the current assets less current
4 liabilities.

5 Q. Okay. And just to confirm, I think there
6 was an exchange before between you and Mr. Wood and
7 maybe Mr. Trotter on this, but as a new Commissioner,
8 again, I just want to understand what previous rate
9 cases with this company, which method they have
10 proposed and which method you have employed. Is it
11 correct to say that you have always used the investor
12 supplied working capital model to estimate working
13 capital with PacifiCorp's rate petitions?

14 A. In the dockets I've reviewed, going back
15 into the '70s, the company has proposed lead-lag
16 studies during that time. The lead-lag studies have
17 never been explicitly accepted by the Commission.
18 They have been used to corroborate an investor
19 supplied approach, which the Staff has proposed
20 throughout that time.

21 So it's not a definitive record on this, but
22 at least over the last 20, 25 years, investor
23 supplied working capital has been the preferred
24 method that this Commission has accepted.

25 Q. And you've been employed, including today,

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1 by this Commission since when?

2 A. Ninety-one.

3 Q. And is it fair to say that you stay current
4 -- over that period of time, that's 1991, that's
5 about 15 years --

6 A. Almost.

7 Q. -- have you stayed current with the
8 different lead-lag studies, the lead-lag
9 methodologies that are being proposed in the
10 regulatory finance arena, as well as the investor
11 supplied working capital? Because I would imagine
12 there's constant work and different refinements to
13 the various methodologies that are being done.

14 A. I don't know about that, because the texts
15 being referred to, such as Mr. Hahne's, are from the
16 early or mid '80s themselves. I don't think those
17 have been updated. I'm not certain. I haven't seen
18 the book itself recently. I think our library copy
19 goes back a ways. I know the lead-lag studies, they
20 update the basic information in that every several
21 years. It's not an annual thing, though, so I
22 haven't -- I haven't studied them, you know,
23 constantly over that time, as part of the learning
24 curve in investor supplied working capital is farther
25 up the level than many things you learn early on.

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1 COMMISSIONER JONES: Thank you. That's all
2 I have, Judge Rendahl.

3

4 E X A M I N A T I O N

5 BY JUDGE RENDAHL:

6 Q. All right. I do have one clarifying
7 question for you, similar to the question for Mr.
8 Wrigley. In your Exhibit 633, which is your revenue
9 requirement presentation, on the conversion factor --
10 I'm trying to identify that here.

11 MR. TROTTER: Is it page four, Your Honor?

12 Q. All right. Page four, where it starts
13 conversion factor. On line five, you identify the
14 Washington revenue tax of 3.8591 percent, and then,
15 later, the state income tax, later on line eight, the
16 state income tax of 4.540 percent. And similar to
17 Mr. Wrigley, can you explain why you feel these taxes
18 are collected in Washington and why the taxes -- and
19 how the taxes are filed and paid to the state?

20 A. The state collects the public utility tax,
21 which is shown on line 33 as 3.873 percent, on gross
22 sales in the state, so a dollar -- a hundred dollars
23 in incremental revenue, the state collects an
24 additional \$3.87. That's what's built into the model
25 on the incremental revenues.

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1 The taxes that are allocated to Washington
2 come under this -- what is called the state income
3 tax, but how PacifiCorp has done it over the -- since
4 the merger with Utah, and probably before that, was
5 the melding of all state-related income taxes, some
6 states are income tax, ours is a gross receipts tax,
7 some states have -- I don't know what other ways,
8 but they're all put together and then reallocated
9 back out on the SO factor. Washington benefits
10 greatly by this, actually. Don't tell the other
11 states that, but -- actually, they know it.

12 The reason -- frankly, this calculation has
13 bothered me for quite a while, but I haven't really
14 gotten into it to figure it out. The conversion
15 factor's only applied on the incremental revenues,
16 the additional revenues that are granted in a rate
17 case. The rest of the revenues, the bulk of them are
18 just -- it's -- are paid as the taxes are incurred.
19 As the company receives the money, it pays the tax to
20 the state.

21 Getting at the heart of this, I don't know
22 if we want to go on a tour of Exhibit 193, which
23 could show some of this, Mr. Wrigley's fat exhibit,
24 but it would show that the state, the public utility
25 tax paid during the test year is about \$7 million for

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1 Washington, and it's allocated among the states. It
2 would then also show that the state income taxes that
3 are also allocated to Washington are about another
4 one and a half million dollars or so, so the taxes
5 allocated to Washington are about three and a half
6 million dollars out of the seven that the state
7 actually paid, was actually received or the company
8 paid to the state.

9 These factors here are still representative
10 of the gross amount of -- to gross up the revenue to
11 pay the taxes that the company will be collecting or
12 having to remit to taxing authorities. That's why
13 they're in here this way.

14 JUDGE RENDAHL: Okay. Well, thank you very
15 much. Is there anything else for this witness?
16 Hearing nothing, thank you, Mr. Schooley, you're
17 excused for now, but I think you're still on for the
18 2nd of February.

19 THE WITNESS: I am.

20 JUDGE RENDAHL: Maybe, possibly. And I
21 think with that, unless there's more on the record, I
22 think we can go off the record till Tuesday.

23 COMMISSIONER OSHIE: Just one thing, Your
24 Honor, and that is to follow-up on the bench request
25 that was discussed during my cross-examination of Ms.

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1 Omohundro. And I think we've put together some
2 language, and I'm going to be a little bit longer
3 than I would like it to be, but let's give it a shot.
4 Mr. Wood, I'll try to read slowly for you, as well as
5 everyone else.

6 Quantify the effect of PacifiCorp's proposed
7 decoupling mechanism on risk associated with --

8 MR. WOOD: You're not reading it slowly
9 enough. Quantify the effect of PacifiCorp's proposed
10 --

11 COMMISSIONER OSHIE: -- decoupling mechanism
12 on risk associated with the recovery of its fixed
13 costs from the increase in energy efficiency during
14 the rate year.

15 MR. WOOD: Is there a number to that bench
16 request?

17 JUDGE RENDAHL: That bench request would be
18 number 18 on my list.

19 COMMISSIONER OSHIE: Thank you, Counsel.

20 JUDGE RENDAHL: All right. With that, Mr.
21 Schooley, you're excused. We'll be off the record
22 until Tuesday morning at 9:30, and have a good
23 weekend. We'll see you on Tuesday. Off the record.

24 (Proceedings adjourned at 3:48 p.m.)

25