Exhibit No.___ (RAB-1T)
Docket No. UE-032065
Witness: Roger Braden

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PACIFICORP d/b/a Pacific Power & Light Company,** **Respondent.**	**DOCKET NO. UE-030265**

TESTIMONY OF ROGER A. BRADEN

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

July 2, 2004

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Roger A. Braden. My business address is 1300 S. Evergreen Park Dr. S.W., Olympia, Washington 98504.

Q. By whom are you employed and in what capacity?

A. I am employed as the Assistant Director for Energy at the Washington Utilities and Transportation Commission.

Q. What are your duties as Assistant Director for Energy?

A. I am the supervisor of the Energy section of the Regulatory Services Division of the WUTC, which consists of 13 professional and technical Staff members. The Energy section is responsible for reviewing and providing recommendations for action to the Commission concerning all filings by regulated companies that provide electric or natural gas service to retail customers in Washington. As the Assistant Director for the Energy section, I participate actively in development and presentation of resulting Staff recommendations to the Commission. I also assist the Commission on larger energy policy issues.

Q. Briefly describe your education and relevant employment experience.

A. I earned a Bachelor of Arts in English from Western Washington State College (now Western Washington University) in 1971. I worked as a commercial and industrial construction electrician from 1973 to 1978, and continued in that capacity part time during law school until 1980. I completed my apprenticeship in 1977 and was licensed as a journeyman in Oregon and Washington. I attended law school at Willamette University College of Law, receiving my J.D., *cum laude*, in 1981. I have been a member of the Washington State Bar since 1981 and a member of the Oregon State Bar since 2002.

I was an attorney and partner with the Davis, Arneil Law Firm in Wenatchee, Washington from 1981 until 1997. My practice focused on representation of Public Utility District No.1 of Chelan County (Chelan PUD), primarily concerning local and regional electric power system generation and operations, power sales contracts, environmental issues related to hydropower generation and retail utility rates.

From February 1997 until September 2001, I served as the General Manager/CEO of Chelan PUD. In that capacity, I was the chief executive of a utility that provided electricity, water and wastewater services to residents of Chelan County. Chelan PUD also owns and operates three hydroelectric facilities with over 2,000 megawatts of installed capacity. While General Manager at Chelan PUD, I served as a member of the Board of Directors of the Pacific Northwest Conference Committee and the Western Systems Coordinating Council.

After leaving Chelan PUD, I worked as a member of the facilitation team that is responsible for coordination and drafting of documents associated with the ongoing attempt to develop and form a Regional Transmission Organization (RTO) in the northwest. My duties as an RTO facilitator were focused on development of transmission agreements, tariffs and a transmission facilities usage plan.

I began working in my current position as Assistant Director for Energy at the WUTC on May 17, 2004.

Q. Will you please explain the purpose of your testimony in this docket?

A. I will provide a brief summary of the Staff's testimony and associated recommendations to the Commission concerning the Company's (also referred to herein as "PacifiCorp") request for a rate increase. Specifically, my testimony will introduce and briefly address: (i) inter-jurisdictional cost allocation issues; (ii) Staff's recommendation for a transitional approach to allocation of Washington costs; (iii) other relevant factors bearing on cost allocation methodology; (iv) prudence of the Company's resource acquisitions; and (v) Staff's determination of the Washington revenue requirement for the Company. I will also list the other Staff witnesses and briefly identify the issues that each will address.

II. INTER-JURISDICTIONAL COST ALLOCATION ISSUES

Q. Please summarize the inter-jurisdictional cost allocation issues arising in this case?

A. The cost allocation issues arise from the fact that the Company serves customers in six states, including Washington. PacifiCorp claims that it needs a consistent cost allocation methodology among its service areas in order to avoid regulatory "holes" or gaps that can cause under-collection of revenues. Accordingly, one of the Company's main objectives in this case is to obtain regulatory approval of the inter-jurisdictional cost allocation methodology that it filed as part of its direct case. (Testimony of Andrea L. Kelly, Exhibit No. ___ (ALK-1T)). That allocation methodology was developed through a lengthy series of meetings, discussions, studies and analyses involving the Company and parties from the various jurisdictions served by PacifiCorp. The Company called this its Multi-State Process ("MSP"). I will refer to the version of the cost allocation methodology filed by PacifiCorp in this case as the "Washington Protocol." The tariffs the Company proposes in this docket are premised upon the Commission's acceptance and use of data obtained through application of the Washington Protocol.

Q. **Why do you refer to the cost allocation methodology filed in this case by the Company as the Washington Protocol?**

A. Because to the best of Staff's knowledge, there are currently three different versions of the Protocol before state utility commissions in PacifiCorp's service territory. One version has been filed with the Public Utility Commission of Oregon, which I will refer to as the "Oregon Protocol." It appears that PacifiCorp has also agreed to a final draft of another version for Utah, which I will refer to as the "draft Utah Protocol." In addition, the Company has filed Protocol versions in Idaho and Wyoming that are identical to the Washington Protocol. Staff has reason to believe, however, that one or both of those Protocols will be amended or replaced by supplemental filings sometime in the near future.

Q. Does the existence of at least three different versions of the Protocol impact Staff's evaluation of the Company's rate request?

A. Yes, it definitely does. It is now apparent that PacifiCorp is asking this Commission to determine Washington revenue requirements on the basis of a cost allocation method that does not meet the Company's underlying objective of inter-jurisdictional consistency. One of the main reasons why PacifiCorp requested that the Commission use the Washington Protocol in this case was its desire to achieve uniformity in application of allocation methods among the six jurisdictions where it provides service. The fact that three concurrent filings in three jurisdictions each propose a different Protocol is a clear indication that the Washington Protocol filed in this case will not achieve the uniformity PacifiCorp is allegedly seeking.

Q. Are the differences between these three Protocol versions significant?

A. Yes. While Staff has not had adequate time or resources to fully analyze either the Oregon or draft Utah Protocols, Mr. Alan P. Buckley has reviewed key features of those Protocols, focusing on differences between them and the Washington Protocol. He concludes that there are several material differences between the three currently extant versions. (Testimony of Mr. Alan P. Buckley, Exhibit No.___ (APB-1T)).

Q. Do the differences between the Protocol versions impact the determination of PacifiCorp's Washington revenue requirements?

A. Yes. Washington is potentially impacted in a very significant way as a result of how the various Protocols address allocation of generation resources. Mr. Buckley discusses this in detail in his testimony. In addition, the stipulation in Utah supporting the draft Utah Protocol contains a startling feature given the proceedings in Washington and other states.

Under the draft Utah Protocol, the Company proposes to cap its Utah revenue requirements for all general rate cases initiated prior to July 1, 2008 to the lesser of: (1) the Company's Utah revenue requirement resulting from application of the draft Utah Protocol, or (2) a 1.25% increase in revenue requirements until mid-June 2006 and a 1.5% per year increase subsequent to that date, using a "Rolled-In Allocation Method." The Rolled-In Allocation Method bunches all of PacifiCorp's resources together, regardless of location or use, and consequently assigns lower cost pre-merger generation resources from PacifiCorp's Western Control Area to Utah for purposes of determining PacifiCorp's Utah power costs. This is done despite the fact that the Company has recently added or is in the process of adding approximately 1,379 Mega-Watts of new generation in its Eastern Control Area at a cost well over $750,000,000. This new generation is needed to meet load in Utah. Despite that fact, a portion of the cost of operating these plants will be allocated to Washington under all versions of the Protocol reviewed. Mr. Buckley explains in more detail Staff's concerns regarding the allocation of these resources.

The bottom line is that the draft Utah Protocol does not equitably divide resource costs among the various states. In addition, the rate cap discussed above means that Utah will not bear its fair share of the cost of resources needed to serve its load. Consequently, that burden must fall elsewhere. It could be placed on PacifiCorp's shareholders, but I think it is very unlikely that the Company will voluntarily shift that cost to its shareholders. That would be counter to one of the primary objectives of the MSP to avoid under collection of revenues. That means PacifiCorp will be forced to attempt to pass those costs on to customers in other jurisdictions, including Washington. The regulatory "gap" that would result from such use of the draft Utah Protocol strongly suggests that the results of the inter-jurisdictional cost allocation process are so severely flawed that the Protocols, specifically the Washington Protocol, are totally inappropriate for determining the Company's Washington revenue requirement in the present case.

Q. In addition to the confusion and inconsistency resulting from the different Protocol versions, does Staff have other concerns about the use of the Washington Protocol in this case?

A. Yes. Because the Company submitted the Washington Protocol as part of its direct case, Staff has reviewed that proposal in depth. As Mr. Buckley explains in detail in his testimony, the Washington Protocol does not adequately, accurately, or fairly allocate the Company's costs and rate base attributable to serving Washington customers. This should be the ultimate objective and the test of the viability of any cost allocation methodology used in Washington. Yet, the Company's continuing reliance on the Washington Protocol fails to meet that objective or satisfy that test.

Q. In light of the confusion created by the existence of multiple Protocol versions and the substantive problems Mr. Buckley has identified with the Washington Protocol, what is Staff's recommendation regarding the Company's proposal to use the Washington Protocol to determine revenue requirements in this rate proceeding?

A. Because the Company is moving forward with its Washington Protocol in this case, which results in a substantial increase in rates, Staff is compelled to recommend that the Commission reject the Washington Protocol in its entirety.

III. TRANSITIONAL COST ALLOCATION METHODOLOGY

Q. If the Commission rejects the Company's Washington Protocol as Staff recommends, what method of inter-jurisdictional cost allocation should the Commission use to determine the Company's Washington revenue requirements in this rate case?

A. That is a difficult question. For reasons discussed by Mr. Buckley in his testimony, a better, more efficient methodology would focus on costs directly associated with providing service to Washington customers. Such a methodology must accurately segregate the cost of the rate base assets and expenses associated with service to PacifiCorp's customers in Washington, not simply allocate to Washington a portion of PacifiCorp's total system costs. As Mr. Buckley points out, such a methodology does not currently exist, but should be developed cooperatively by Staff, the Company and other parties. Staff recommends that the Commission order such a cooperative process, which probably will require at least two years to complete.

Pending that effort, Staff used its "best efforts" to respond to the Commission's desire to examine PacifiCorp's rates in a ratemaking context. (*See* Docket No. UE-991832, 8th Supplemental Order, ¶ 43). Therefore, for the purpose of this proceeding only, Staff has measured the Company's Washington revenue requirement using a control area focused allocation methodology based on the "Hybrid" cost model. The Hybrid model is described in the Company's direct testimony concerning the Washington Protocol. (Testimony of Gregory N. Duvall, Exhibit No.___(GND-1T)). In brief, the control area methodology uses cost and rate base data for the Company's operation of its Western Control Area, which is the area that was served by Pacific Power & Light Company prior to its acquisition of Utah Power & Light Company in 1987. It should be noted that Staff does not believe that the control area allocation methodology provides a workable long-term solution to the cost allocation issues arising from the Company's inter-jurisdictional operations.

For all of the reasons expressed in Staff's testimony, Staff strongly recommends that the Commission use the control area allocation method only as a transitional tool in this case. As stated earlier, Staff further recommends that the Commission direct the Company to develop an alternative costing methodology, in cooperation with Staff and other parties, to establish the Company's revenue requirement for Washington for use in future cases.

IV. OTHER RELEVANT FACTORS REGARDING ALLOCATIONS

Q. Are there other factors the Staff believes should inform the Commission's decision in its determination of rates for this case?

A. Yes. The Commission's order approving the merger of Pacific Power & Light Company and Utah Power & Light Company in 1987 is also relevant. (Docket No. U 87-1532-T.) One of the most controversial issues in that proceeding was the impact on Washington customers of merging Pacific Power's system of low-cost hydro-based resources with Utah Power's system of high-cost thermal resources. In addition, there was concern that there would be added complexities surrounding interstate cost allocations and future determinations of Washington revenue requirements from the combined company's operations. The Company assured the Commission that there would be no adverse consequences on

Washington customers from the acquisition of the Utah properties. Furthermore, the Company assured the Commission that there would be no additional burdens on the Commission due to the added complexities of interstate cost allocations as a result of the merger. Staff believes that the proposed Washington Protocol raises serious questions about whether the Company intends to meet these commitments in Washington.

V. PRUDENCE OF RESOURCE ADDITIONS

Q. The Company is requesting in this proceeding a determination of prudence for resources identified in the Joint Report, as well as other recently acquired resources. Does Staff make prudence recommendations with regard to those resources?

A. Yes. The Joint Report, dated December 7, 2001, is included in Company witness Widmer's Exhibit No.___ (MTW-4). It identifies several generation resources that were previously determined to be prudently acquired on a *system basis*. In this proceeding, the Company is asking the Commission to determine whether those resources should be accepted for inclusion in its Washington rate base. Those resources include the Craig, Hayden, Cholla Unit 4, James River Co-gen, Hermiston Co-gen, and Foote

Creek Wind facilities. Staff also addresses two other newly acquired resources, Gadsby and West Valley.

Because Staff utilized the control area cost allocation methodology in this case as a transitional analysis tool, Staff only evaluated for inclusion in Washington rate base the James River and Hermiston plants, which are the only identified resources that are assigned to PacifiCorp's Western Control Area. All of the other resources presented by the Company for review are assigned to the Eastern Control Area and, under the control area cost allocation methodology, they are irrelevant to Staff's analysis and have been disregarded. As explained in Mr. Buckley's testimony, both the James River and Hermiston resources were prudently acquired to serve Washington customers.

If, at any time in the future, generation resources located in PacifiCorp's Eastern Control Area are determined to be relevant to the Company's Washington operations, the Commission at that time can review those acquisitions. This could happen, for example, if a workable inter-jurisdictional allocation method is developed for Washington that includes any such resources.

VI. WASHINGTON REVENUE REQUIREMENT DETERMINATION

Q. Has Staff made a determination of the Company's Washington revenue requirement in this case?

A. Yes. That determination and references to the supporting data are contained in the testimony of Thomas E. Schooley. (Exhibit No.___ (TES-1T)). Mr. Schooley calculates an overall Washington revenue requirement for the Company of $5,931,751. This an overall increase of approximately 2.9%.

Q. What overall cost of capital did Staff determine was proper in this case?

A. As Mr. Steven G. Hill explains in detail in his testimony, (Testimony of Steven G. Hill, Exhibit No.___ (SGH-1T)), the Company's equity cost of capital is 9.375%. When combined with other Company debt and an appropriate capital structure that includes 47.08% equity, this results in an overall cost of capital for the Company of 7.716%.

VII. IDENTIFICATION OF STAFF WITNESSES

Q. Will you please identify the other Staff witnesses who will be providing testimony on the issues and recommendations you have mentioned?

A. Yes. The following testimony is submitted as part of the Staff's direct case:

1. Mr. Yohannes Mariam, in Exhibit No.___ (YKGM-1T), will testify concerning normalization of data to reflect weather variances and the Company's cost of service determination.
2. Ms. Joelle R. Steward, in Exhibit No.___ (JT-1T), will testify jointly with Mr. Donald Schoenbeck, a witness for ICNU, and Mr. Jim Lazar, a witness for Public Counsel, concerning their review and analysis of PacifiCorp's proposed rate design and rate spread.
3. Mr. Danny P. Kermode, in Exhibit No.___ (DPK-1T), will testify concerning his review of the impact of property taxes and state and federal income taxes on PacifiCorp's Washington revenue requirement.
4. Ms. Joanna Huang, in Exhibit No.___ (JH-1T), will testify about her review and analysis of PacifiCorp's depreciation, wages, hydro relicensing and other expenses.

5. Mr. Alan P. Buckley, in Exhibit No.___ (APB-1T), will testify concerning PacifiCorp's inter-jurisdictional cost allocation issues and power resources.

6. Mr. Steven G. Hill, in Exhibit No.___ (SGH-1T), will testify as to his analysis and conclusions concerning PacifiCorp's cost of capital and the appropriate overall rate of return.

7. Mr. Thomas E. Schooley, in Exhibit No.___(TES-1T), will contest several of the accounting adjustments contained in the Company's direct case. In addition, Mr. Schooley will testify concerning the results of operations and PacifiCorp's Washington revenue requirement.

Q. Does that conclude your testimony?

A. Yes, it does.