

Exhibit ___ T (APB-5T)
Dockets UE-061546/UE-060817
Witness: Alan P. Buckley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

vs.

PACIFICORP dba Pacific Power & Light
Company,

Respondent.

DOCKET UE-061546

In the Matter of the Petition of

PACIFIC POWER & LIGHT COMPANY

For an Accounting Order Approving Deferral
of Certain Costs Related to the MidAmerican
Energy Holdings Company Transition.

DOCKET UE-060817

**CROSS-ANSWERING
TESTIMONY OF**

Alan P. Buckley

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

March 5, 2007

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1 **I. INTRODUCTION AND SCOPE OF TESTIMONY**

2

3 **Q. Please state your name and for whom you are testifying.**

4 A. My name is Alan P. Buckley. I am testifying for Commission Staff.

5

6 **Q. Are you the same Alan P. Buckley who presented direct testimony in this**
7 **docket?**

8 A. Yes.

9

10 **Q. On what issues are you offering cross-answering testimony?**

11 A. I respond to the testimony of Public Counsel witness Mr. Johnson on the PCAM. I
12 respond to the testimony of ICNU and Public Counsel witness Mr. Falkenberg on the
13 issues relating to the Western control area (WCA) allocation methodology and
14 various power supply adjustments. I also respond to ICNU witness Mr. Falkenberg
15 on the PCAM. I do not respond to each and every point made by these witnesses.

16

17 **II. DISCUSSION**

18

19 **A. Response to Public Counsel witness Mr. Johnson**

20

21 **Q. Has Public Counsel taken the position that PacifiCorp does not need a PCAM?**

1 A. Yes. According to Mr. Johnson, “the Company has not shown changes in net
2 variable power costs are frequent and severe enough due to *unusual weather* to
3 warrant a PCAM.” *Direct Testimony of Mr. Johnson, Exhibit ___ (SGJ-IT) at 4.*
4

5 **Q. What standard does Public Counsel propose for when a PCAM is warranted?**

6 A. Public Counsel appears to support a “threshold” for when a PCAM is warranted.
7

8 **Q. What does Public Counsel say about this “threshold?”**

9 A. According to Mr. Johnson, “the Company does not present sufficient data and
10 analysis to show that their lower dependency on hydroelectric resources passes a
11 threshold for needing a PCAM.” *Direct Testimony of Mr. Johnson, Exhibit ___*
12 *(SGJ-IT) at 6.* He goes on to say that PacifiCorp has not compared itself to Avista
13 and Puget Sound Energy (PSE) to show that “PacifiCorp’s dependency crosses a
14 threshold found in the establishment of those two PCAs.” *Id. at 7.*
15

16 **Q. Does Public Counsel quantify any such “threshold” in its testimony?**

17 A. No.
18

19 **Q. Does Public Counsel cite or quote any finding from any Commission order
20 which established the “threshold” Public Counsel says was “found?”**

21 A. No.
22

1 **Q. Has the Commission in fact established a “threshold” in variations of net**
2 **variable power costs that must be reached before an electric utility may have a**
3 **PCAM?**

4 A. No.

5
6 **Q. In discussing this “threshold,” what did Public Counsel compute as**
7 **Washington’s share of company-wide hydro?**

8 A. Public Counsel calculated Washington’s share of company-wide hydro as .2 percent.
9 *Direct Testimony of Mr. Johnson, Exhibit ___ (SGJ-1T) at 7.*

10
11 **Q. Is that calculation accurate?**

12 A. No. Mr. Johnson discusses hydro-electric production from a Company-wide
13 standpoint. However, that viewpoint is irrelevant to setting Washington rates using
14 any form of Western control area based allocation methodology.

15 In any event, Mr. Johnson’s comparison of variations in hydro production to
16 total generation is meaningless because he fails to distinguish between the effects of
17 hydro production variation and the variation of other thermal-type resources.

18 For example, when hydro production declines due to adverse weather
19 conditions or similar factors, the Company and its customers are fully exposed to the
20 costs of much more expensive incremental generation, in the form of thermal plants
21 or market purchases. Hydro production energy is essentially “free;” therefore, the
22 impact of a decline in hydro generation is the incremental cost of the replacement
23 energy.

1 By comparison, the effect of variations in thermal generation or contract
2 energy is relatively less severe, because replacement energy would most likely be
3 priced nearer to the cost of the lost thermal generation or contract energy.

4 This explains why utilities with significant hydro production have more cost
5 exposure than utilities with thermal-based systems. Public Counsel fails to take this
6 critical fact into account.

7
8 **Q. What are more relevant comparisons that will help the Commission better**
9 **understand the nature of PacifiCorp's exposure to power cost volatility?**

10 **A.** There are several measures available. For example, the Company's Exhibit ____
11 (MTW-3) presents the relative percentages of normalized sources of peak capacity
12 (winter and summer) and annual energy for the Western control area under the WCA
13 methodology. This exhibit shows that the Company-owned hydro generation and
14 Mid-Columbia contracts together account for approximately 34 percent, 21 percent
15 and 18 percent of the Company's winter peak capacity, summer peak capacity, and
16 annual energy, respectively. These percentages would therefore also represent the
17 share of these sources that are used to determine Washington's rates.

18 As I discussed above, the effects of variations in the cost of any one of these
19 hydro related values is much greater than variations in other types of resources, with
20 the exception of wind.

21 Obviously, these percentages are many times greater the miniscule, 0.2
22 percent figure Public Counsel offers.

1 **Q. Are there other measurements that appropriately indicate the effects of**
2 **variations in hydro generation for PacifiCorp?**

3 A. Yes. In my direct testimony, Exhibit ___T (APB-1T), page 34, I compare the “best”
4 and “worst” water years, as run through the GRID model. This comparison showed
5 a potential \$26.6 million swing in Washington net power supply expense from
6 variations in water years, given the assumptions used for replacement energy prices.
7 On the downside, the exposure was almost \$16 million, which is a significant
8 variation compared to overall Washington net power supply expense levels of around
9 \$90 million.

10 Of course, this effect on Washington net power supply expense could
11 increase significantly if replacement energy costs increase over the amounts assumed
12 in the study.

13
14 **Q. Does PacifiCorp have a lower percentage of hydro in its resource portfolio than**
15 **Avista or PSE?**

16 A. Yes.

17
18 **Q. Should that disqualify PacifiCorp from having a PCAM?**

19 A. No. As I explained above and in my direct testimony, PacifiCorp has significant
20 exposure to variations in hydro production, as well as variations in other net power
21 supply expense components that are beyond its control. The fact that this exposure is
22 less, or greater, than other utilities, does not mean the Company should not have a
23 PCAM.

1 **Q. Public Counsel states that the PCAM uses GRID model results that are not**
2 **reproducible. *Direct Testimony of Mr. Johnson, Exhibit ___ (SGJ-1T) at 11. Is***
3 **Public Counsel correct?**

4 A. No. While the use of the GRID model to determine “adjusted” actuals is not the
5 ideal tool to use for a PCAM, it is the best tool available at the present time. The
6 results can be reproducible and available for analysis prior to the time the
7 Commission approves any final deferral amounts which would flow through to rates
8 via the PCAM.

9
10 **B. Response to Mr. Falkenberg**

11
12 *1. WCA methodology*
13

14 **Q. Do ICNU and Public Counsel support the adoption of the WCA methodology**
15 **for use in Washington?**

16 A. The answer is unclear. Mr. Falkenberg appears to be recommending that the
17 Commission outright reject the WCA methodology and deny the Company’s
18 requested rate increase. However, he then goes on to recommend several
19 modifications to the WCA methodology, which appear to support a significant rate
20 reduction, saying that outright rejection of the WCA methodology would be “overly
21 generous for the Company.” *Direct Testimony of Randall J. Falkenberg, Exhibit ___*
22 *(RJF-1T) at 15.*

1 **Q. Has ICNU or Public Counsel proposed an alternative allocation model for use**
2 **in Washington?**

3 A. No.

4
5 **Q. Assuming Mr. Falkenberg is recommending that the Commission reject the**
6 **WCA methodology outright, what basis does he supply to support such a**
7 **recommendation?**

8 A. His criticism appears to focus on two claims. His first claim is based on his
9 simplistic comparison between the net variable power costs of the Company's
10 Western control area and Eastern control area, using the WCA GRID model. *Direct*
11 *Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 11-13.* His second
12 claim is that the WCA methodology does not meet the Commission's "used and
13 useful" standard. *Id. at 13-15.*

14
15 **Q. Is Mr. Falkenberg's comparison of net variable power costs a valid criticism?**

16 A. No. Mr. Falkenberg's comparison only addresses net variable power costs. He
17 completely ignores the differences in fixed costs, or the rate base component of
18 determining Washington's total revenue requirements. Mr. Falkenberg's failure to
19 include the revenue requirement associated with the fixed costs of facilities in any
20 overall cost comparison is simply not appropriate.

21 Moreover, the Commission should expect differences between the net
22 variable power costs of the part of the Company's system that largely relies upon
23 high fixed cost/low variable cost coal generating resources (Eastern control area) and

1 the other part of the system that relies a good deal on a mix of coal and hydro-
2 electric facilities, supported by low fixed cost/high variable cost gas-fired resources
3 and power purchase and sales contracts that are treated as variable power supply
4 costs (Western control area).

5
6 **Q. Are there valid comparisons that demonstrate the reasonableness of the WCA**
7 **methodology?**

8 A. Yes. The Commission should simply look at the overall rates for Washington
9 developed using the WCA methodology. Even if the Commission granted the entire
10 rate request proposed by the Company, Washington's rates would still compare very
11 favorably to those in the Company's other jurisdictions. Washington's total power
12 costs would NOT be 62 percent higher than those jurisdictions in the Eastern control
13 area, as Mr. Falkenberg's testimony might suggest.

14
15 **Q. Does the WCA methodology appropriately address the Commission's "used and**
16 **useful" standard?**

17 A. Yes. As a starting point, the WCA methodology includes those resources and power
18 contracts contained or initiated in the Company's Western control area. These
19 resources are "used and useful" for Washington, because PacifiCorp operates the
20 Western control area as a single service area. Moreover, the WCA GRID model runs
21 show that Washington's load requirements and Western control area balancing needs
22 can be met by this mix of resources and contracts.

1 **Q. Does the WCA methodology overlook resources located elsewhere that may**
2 **provide net benefits to Washington?**

3 A. No, for two reasons. First, under the proposed WCA model, additional resources can
4 be explicitly included in the portfolio of resources that are determined to serve
5 Washington if there is a clear showing that they are “used and useful” as the
6 Commission has used that term; that is, they can be included to the extent that a
7 direct allocation of benefits and costs warrants that treatment.

8 Second, part of Staff’s Adjustment 5.4, Eastern Market Modification, reflects
9 an additional West to East market “bubble.” This provides Washington additional
10 benefits through economic sales into the Eastern control area.

11 To the extent the Western control area may be able to make economic
12 purchases from the Eastern control area, and thus attain some benefits from East-side
13 resources, a similar purchase power economy market can be modeled as a refinement
14 to the WCA GRID model. This East to West “bubble” would enable Washington to
15 benefit from any available East-to-West interconnection and potential economic
16 energy purchases from PacifiCorp’s portfolio of Eastern control area resources. This
17 would include power available from the Wyodak and Dave Johnson plants, and all
18 other East-side resources. The Commission should order such a modification to the
19 WCA GRID model as part of the Company’s next general rate case, or any other
20 proceeding that would address base level power supply costs.

21 Of course, this additional East to West “bubble” depends on the existence of
22 sufficient transmission capacity to enable the Western control area to make economic

1 power purchases from the Eastern control area. That issue would have to be resolved
2 before the new East to West "bubble" could be implemented.

3
4 **Q. Does the WCA methodology include a detailed description of how specific**
5 **resource benefits may move from being implicitly treated, for example as part**
6 **of an "Eastern market bubble," to having benefits and costs explicitly allocated**
7 **as one of the portfolio resources?**

8 A. Not yet. However, with the participation of all parties, this refinement can be
9 worked out.

10
11 **Q. ICNU and Public Counsel claim that the WCA methodology is a "shallow**
12 **attempt to court favor with the Commission by trading simplicity for higher**
13 **cost to customers." *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-***
14 ***IT) at 14. Do you agree with this characterization?***

15 A. Absolutely not. The WCA methodology is a positive response by the Company to
16 issues addressed by Staff, intervenors, and the Commission in previous proceedings.
17 To meet the needs of Washington, the Company has abandoned its previous support
18 of the Revised Protocol methodology that is used in all of its other jurisdictions and
19 has proposed a reasonable and fair methodology consistent with what Staff has
20 recommended previously. To say that this proposal is a "shallow attempt to court
21 favor" is unfair and inappropriate.

1 It is also unfair for ICNU and Public Counsel to once again recommend the
2 Commission reject a rate filing because of an allegedly inadequate cost allocation
3 method, and then fail to propose an acceptable alternative method.
4

5 2. *Public Counsel and ICNU's proposed "corrections" to the WCA*
6 *methodology*
7

8 a. **Interconnections**
9

10 **Q. ICNU and Public Counsel state that the WCA methodology does not recognize**
11 **interconnections between the Western control area and the Eastern control**
12 **area. Is that correct?**

13 A. The Company's proposed WCA methodology is not based on the existence of any
14 interconnections between the two control areas. Under the Company's proposal,
15 system balancing transactions would be carried out using two markets representing
16 what are called the California-Oregon Border Market and the Mid-Columbia Market,
17 while ignoring any interconnections between Company control areas.

18 In order to capture any additional benefits for Washington customers that
19 may exist from additional margins that may be available from sales to the Eastern
20 control area as compared to the other markets, Staff proposed Adjustment 5.4, which
21 includes a West to East market "bubble" for use in the WCA GRID model. This
22 change addresses the previous lack of interconnection between control areas that
23 existed under the Company's original proposal, and results in some additional
24 economic benefits for Washington customers related to economic power sales into

1 the Eastern control area. These sales to the East-side market decrease total
2 Washington net power supply expense by \$1.05 million in this case.

3 As I stated earlier, if an East to West "bubble" is added in subsequent rate
4 cases, this has the potential to provide additional benefits to Washington, assuming
5 there is actually available any East-to-West transmission capacity at the time of such
6 purchases.

7
8 **b. Wyodak and Dave Johnson Plants**

9
10 **Q. What reasons do ICNU and Public Counsel provide for including the Wyodak
11 and Dave Johnson plants in Washington' cost of service?**

12 A. According to Mr. Falkenberg, these plants should be included because they were part
13 of PacifiCorp's system before Pacific Power & Light Company merged with Utah
14 Power and Light Company, and they were included in rate base in prior Washington
15 rate cases. He also says power is delivered from these plants to the West under the
16 GRID model, and the costs of the plants are "more than commensurate with the
17 benefits provided." *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-*
18 *IT) at 22-23.*

19
20 **Q. Are those reasons sufficient for including those projects as part of the WCA
21 resource portfolio?**

22 A. No. The simple fact that these plants where once part of Pacific Power & Light
23 before the merger is not sufficient to include them as a Western control area resource

1 now. Before the merger, Pacific Power & Light operated two control areas. The
2 Wyodak and Dave Johnson plants were interconnected to the control area that served
3 portions of Wyoming. These plants are now located the Company's Eastern control
4 area.

5 The fact that the Commission may have once set rates by including these
6 plants in the rate base of the former Pacific Power & Light Company, has no bearing
7 on how rates should be developed now based on how the Company's system is
8 structured today.

9
10 **Q. Do the Wyodak and Dave Johnson projects provide benefits to Washington**
11 **customers under the WCA methodology?**

12 **A.** They may, as part of the East-side portfolio of resources that would be available to
13 support potential economic purchases by the West. As I discussed above, if, in
14 subsequent proceedings, the Commission determines that sufficient East-to-West
15 interconnection capacity exists to warrant a further modification to the WCA GRID
16 model, Washington customers may see a net benefit from these projects, as well as
17 other Eastern control area projects, through market purchases from the East-side of
18 the Company's system. These benefits would occur only if and when it is economic
19 to the West to make those purchases, and only if and when there is sufficient East to
20 West transmission capacity to make those purchases. Under this East to West
21 "bubble" approach, there would be no need to directly allocate to Washington the
22 fixed and variable costs of any Eastern control area resources.

1 Q. Is the lack of an East to West “bubble” at the present time a reason not to apply
2 the WCA methodology?

3 A. No. Although I believe it is important to recognize the future potential of such
4 purchases, I believe the effect on Washington net power supply costs will be
5 minimal due to the lack of interconnection capacity East-to-West.

6
7 Q. What adjustment do ICNU and Public Counsel propose for Wyodak and Dave
8 Johnson?

9 A. Mr. Falkenberg proposes a two-part adjustment. First, he includes 97 MW of power
10 at a cost of \$3.8 million. Second, he includes Wyoming loads to calculate an overall
11 savings of \$8.2 million. *Direct Testimony of Randall J. Falkenberg, Exhibit ____*
12 *(RJF-1T) at 25.*

13
14 Q. Assuming Wyodak and Dave Johnson are included in Washington results of
15 operations, are these adjustments appropriate?

16 A. No. Without critiquing the specific calculation of the dollar benefits, I simply point
17 out that ICNU and Public Counsel’s proposed “correction” does not appear to
18 include any of the fixed costs associated with these projects. Indeed, Mr. Falkenberg
19 claims that any such allocation is not appropriate because the projects do not provide
20 energy to the West during all available hours. *Direct Testimony of Mr. Falkenberg,*
21 *Exhibit ____ (RJF-1T) at 24.* It is also inappropriate for Public Counsel and ICNU to
22 include in the WCA methodology the loads of a jurisdiction that is not even in the

1 Western control area as a necessary step to specifically include these projects the
2 model.

3 From Staff's perspective, if the benefits from these projects are to be
4 specifically allocated to Washington, as ICNU and Public Counsel propose, then it is
5 inappropriate for them to exclude a significant portion of the costs of these projects.

6 On the other hand, Mr. Falkenberg's admission that these projects are not
7 available during on-peak hours calls into question the entire logic of ICNU's direct
8 allocation of the benefits of these projects through the WCA methodology in the first
9 place.

10
11 **c. Short-term transaction modeling**

12
13 **Q. What is Public Counsel and ICNU proposed treatment of short-term
14 transactions that are modeled in the WCA GRID model?**

15 A. Public Counsel and ICNU propose to remove all short-term firm transactions from
16 the model. This adjustment appears to be based on two points – first, that only actual
17 transactions arranged as of the filing date were included; and second, the
18 transactions have not been demonstrated to be needed to serve Washington. *Direct
19 Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 29-32.*

20 The result of removing these transactions is to restate all Western control area
21 balancing transactions at what appears to be more favorable prices, thus lowering the
22 net power supply expense.

1 **Q. Is it appropriate to eliminate all short-term firm power transactions in**
2 **determining Washington net power supply expense?**

3 A. No. The Company uses a combination of short-term firm transactions and economy
4 market transactions to balance its Western control area and system requirements.
5 Therefore, the WCA GRID model should, to the extent possible, include any actual
6 short-term firm transactions in as timely a manner as possible. Because there is a
7 discrepancy between the rate year and the transactions that are known as of the date
8 the Company filed its case, the Commission could order the Company to file an
9 updated WCA power cost study as part of any compliance filing. However, ICNU
10 and Public Counsel's proposal to simply eliminate these transactions because they
11 may be "below market", compared to more recent and potentially more favorable
12 economy market prices, is not appropriate.

13 In the alternative, most of the discrepancies between the short-term firm
14 transactions that are assumed in the base power supply expense, and more current
15 short-term firm transactions, are mitigated through the use of a PCAM, because the
16 PCAM would capture the actual short-term firm transactions.

17
18 **Q. When can the Commission evaluate the prudence of short-term firm**
19 **transactions?**

20 A. The Commission can evaluate the prudence of these transactions as part of the
21 annual review process proposed under the PCAM.

22 The Company needs to prudently manage its short-term firm transactions in a
23 manner that minimizes overall net power costs, with an appropriate balance of the

1 risk and rewards of any buy-sell arrangements that may be entered into. Initially,
2 short-term firm transactions can be included as one of the items PacifiCorp reports as
3 part of Staff's proposed monthly PCAM reports. Once the Commission gains a
4 greater understanding of these transactions, perhaps the annual review process will
5 suffice.

6
7 3. *Power supply issues*

8
9 a. **SMUD Contract**

10
11 **Q. What is the SMUD Contract?**

12 A. The SMUD contract was entered into in 1987 under which PacifiCorp sells power to
13 the Sacramento Municipal Utility District (SMUD). The contract calls for
14 PacifiCorp to provide power at an \$18/MWh rate.

15
16 **Q. What treatment of the SMUD contract does PacifiCorp propose?**

17 A. PacifiCorp imputes a \$37 sales rate for the SMUD contract energy, which apparently
18 is a treatment ordered by the Utah commission. The Company's proposal in this
19 proceeding recognizes that the Commission may have an issue with the prudence of
20 the original contract terms, although no such finding has been made in Washington.
21 The \$37 imputed rate is based on a similar, but shorter term, sales contract the
22 Company made at approximately the same time with Southern California Edison.

1 **Q. What do Public Counsel and ICNU propose?**

2 A. Public Counsel and ICNU propose to eliminate this contract on the basis that it is
3 imprudent and not used and useful. *Direct Testimony of Randall J. Falkenberg,*
4 *Exhibit ___ (RJF-1T) at 35-36.*

5
6 **Q. Have ICNU and Public Counsel shown the SMUD contract is imprudent?**

7 A. No. The Commission views the prudence issue from the perspective of the
8 information that was known, or should reasonably have been known, to
9 management at the time it made the utility made the decision to sign the contract.¹
10 Public Counsel and ICNU supply no information on that issue. While I believe Staff
11 has raised issues related to this contract in other proceedings, no specific
12 Commission decision regarding the contract has been made, due to consideration of
13 various stipulated agreements between parties.

14
15 **Q. Have Public Counsel and ICNU shown the SMUD contract is not used and**
16 **useful?**

17 A. No.

18

¹ E.g., *Utilities & Transp. Comm'n v. Puget Sound Power & Light Co.*, Dockets UE-920433, UE-920499 & UE-921262, 11th Supplemental Order at 20 (September 21, 1993).

1 **Q. What is Staff's recommendation regarding the SMUD contract?**

2 A. Staff believes the adjustment proposed by the Company of the contract sales price to
3 \$37 is a reasonable and appropriate response to potential prudence concerns in 2007
4 for a contract that was entered into in 1987.

5

6 4. *PCAM*

7

8 **Q. Does ICNU support a PCAM?**

9 A. No.

10

11 **Q. What is ICNU's first reason for opposing a PCAM for PacifiCorp?**

12 A. According to Mr. Falkenberg, ICNU opposes the PCAM because it allegedly fails to
13 address the Commission's concerns in the 2005 Rate Case. *Direct Testimony of*
14 *Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 56.*

15

16 **Q. Is that a valid reason for opposing a PCAM?**

17 A. No, except to the extent PacifiCorp's PCAM includes the cost of new generation.
18 PacifiCorp proposes to include the cost of new generation; Staff does not.

19 The Commission's first concern was that the PCAM should focus on "short-
20 term costs subject to market volatility or other extraordinary events beyond the
21 Company's control, and should not include costs of new generation."² Both Staff's

² *Utilities and Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.*, Docket UE-050684, Order 04 at ¶ 99.

1 and the Company's proposed PCAMs focus on the appropriate short term costs. For
2 example, Staff's proposed PCAM would allow the Company to track the affects on
3 net power supply expense due to variations in hydro-related production, as well as
4 variations in thermal fuel costs, some contract costs, market prices, loads, and forced
5 outages.

6 The Commission's second concern was that a 90/10 sharing band in the
7 absence of a dead band does "not adequately balance the risks and benefits between
8 shareholders and ratepayers."³ Both Staff's and PacifiCorp's proposed PCAMs have
9 a substantial dead band before any sharing occurs. Staff witness Mr. Ken Elgin
10 provides testimony on the risk shifting issue.

11 The third Commission concern was that there needs to be an acceptable cost
12 allocation methodology.⁴ The WCA method proposed by PacifiCorp is an
13 acceptable methodology, if the Commission accepts the amendments Staff proposes.

14
15 **Q. ICNU also criticizes the proposed PCAM on the basis that it contains modeled**
16 **costs rather than actual costs. *Direct Testimony of Mr. Falkenberg, Exhibit ___***
17 ***(RJF-1T) at 57. Is this a valid criticism?***

18 **A.** Staff also had some concerns in this regard. However, as I explained in my direct
19 testimony, Exhibit ___ T (APB-1T), page 38, the use of the GRID model to
20 determine "adjusted" actual expenses is a necessary tool at the present time in order
21 to implement a PCAM for the Company. As I explained, the Company should be

³ *Id.*

⁴ *Id.*

1 required to explore changes in its accounting system to address this issue for
2 Washington.

3 In addition, Staff's proposed PCAM evaluation proceeding, once it has been
4 in place for three years, would allow parties to submit modifications or suggestions
5 on how the PCAM process can be improved. Finally, the annual PCAM review
6 provides yet another opportunity for the parties to critique the calculation of any
7 proposed deferrals.
8

9 **Q. Does ICNU also criticize the structure of the proposed PCAM?**

10 A. Yes. ICNU focuses on the Company's proposal to begin 90/10 sharing when excess
11 power costs exceed \$7.4 million. According to Mr. Falkenberg, "the Commission
12 already rejected 90/10 sharing mechanism in Docket UE-050684." *Direct Testimony*
13 *of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 62.* He also quotes language from
14 the Commission's order suggesting that PacifiCorp's PCAM might have a different
15 structure that Avista's ERM.
16

17 **Q. Is ICNU correct that the Commission already rejected "a 90/10 sharing
18 mechanism?"**

19 A. No. In its order in the 2005 Rate Case, the Commission rejected a 90/10 sharing
20 band when there was no dead band. As I mentioned, both Staff's and PacifiCorp's
21 proposed PCAMs have dead bands.
22

1 **Q. Does ICNU also question the need for a PCAM?**

2 A. Yes. According to Mr. Falkenberg, there is no evidence that power cost volatility is
3 a problem for PacifiCorp. *Direct Testimony of Randall J. Falkenberg, Exhibit ____*
4 *(RJF-1T) at 64-69.*

5

6 **Q. Is ICNU correct?**

7 A. No. I responded to this issue above in my response to Public Counsel witness Mr.
8 Johnson's direct testimony.

9

10 **Q. Does this complete your cross-answering testimony?**

11 A. Yes.