

Exhibit \_\_\_ T (KLE-4T)  
Dockets UE-061546/UE-060817  
Witness: Kenneth L. Elgin

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**

**Kenneth L. Elgin**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**March 5, 2007**

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 Kenneth L. Elgin. I am testifying for Commission Staff.

5  
6   **Q.     Are you the same Kenneth L. Elgin who presented direct testimony in this**  
7         **docket?**

8   A.     Yes.

9  
10  **Q.     On what issue are you offering cross-answering testimony?**

11  A.     I respond to the testimony of ICNU witness Mr. Gorman regarding ICNU's  
12         recommendation that the Commission reduce PacifiCorp's cost of equity 0.3 percent.  
13         I point out that ICNU's recommendation is tied exclusively to ICNU's  
14         recommendation for a limited PCAM, which shifts very little risk to customers.

15  
16                   **II.    DISCUSSION**

17  
18  **Q.     What is ICNU's basis for the 0.3 percent reduction to the cost of equity?**

19  A.     According to Mr. Gorman, the 0.3 percent reduction is "based on an assessment of  
20         reduced capital cost recovery risk demanded by the market." *Direct Testimony of*  
21         *Michael P. Gorman, Exhibit \_\_\_ (MPG-1T) at 2:23-3:1.* He uses the average spread

1 between "A" rated and "Baa" rated utility bonds, or 0.3 percent. *Id. at 3:1-2 and*  
2 *Exhibit \_\_\_ (MPG-3).*

3  
4 **Q. Is ICNU's proposed 0.3 percent reduction in PacifiCorp's return on equity**  
5 **related to the structure of ICNU's proposed PCAM?**

6 A. Yes. As ICNU witness Mr. Falkenberg explains, Mr. Gorman's 0.3 percent cost of  
7 equity reduction is intended to reflect the value of ICNU's proposed PCAM, which  
8 ICNU calls a "hydro hedge." *Direct Testimony of Randall J. Falkenberg, Exhibit*  
9 *\_\_\_ (RJF-1T) at 69:21.*

10  
11 **Q. Is that a reasonable approach?**

12 A. Yes. However, Mr. Gorman's calculation is useful only for the limited purpose of  
13 evaluating the impact ICNU's hydro hedge has on PacifiCorp's cost of capital. The  
14 analysis Mr. Gorman presents regarding the spread between an "A" rated bond and a  
15 "BBB" rated bond is not related to how a more comprehensive PCAM protects the  
16 utility and its ability to service debt in adverse power conditions.

17 The point is that the degree to which a PCAM reduces "capital cost recovery  
18 risk" depends on the structure of the PCAM that is being used. In other words, all  
19 PCAMs are not created equal. While one PCAM may shift a significant amount of  
20 risk, another PCAM can shift very little risk. Indeed, while ICNU, PacifiCorp and  
21 Staff propose PCAMs, each proposal shifts a different amount of risk to ratepayers.

1 The amount of the cost of capital offset will depend on the extent of the risk shifting  
2 involved.

3 The analysis I present in my direct testimony is a more comprehensive  
4 approach to evaluate the PCAMs proposed by Staff and PacifiCorp, not the limited  
5 hydro hedge proposed by ICNU in Mr. Falkenberg's testimony.  
6

7 **Q. Does your analysis provide a direct link between the risk shifting in Staff's**  
8 **proposed PCAM and PacifiCorp's cost of capital?**

9 A. Yes. As I explained in my direct testimony, the more a PCAM protects the utility  
10 from adverse conditions, the less the utility needs to have an equity "cushion" to  
11 protect itself when those adverse conditions arise. Reducing the equity ratio is a  
12 more direct way to reflect the impact of the risk reduction features of a specific  
13 PCAM on the utility's cost of capital. It directly links the protection offered by a  
14 PCAM to the utility's ability to service both existing and incremental debt. In my  
15 direct testimony, I analyze the extent to which Staff's proposed PCAM reduces  
16 PacifiCorp's need for equity in its capital structure, and I recommend the  
17 Commission reduce the equity ratio to 42 percent.  
18

19 **Q. Does that complete your cross-answering testimony?**

20 A. Yes.