



1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS**

2 **A.** Randall J. Falkenberg, PMB 362, 8343 Roswell Road, Sandy Springs, GA 30350.

3 I am the same witness who filed responsive testimony on October 5, 2010, on  
4 behalf of the Industrial Customers of Northwest Utilities (“ICNU”).

5 **Q. WHAT IS THE PURPOSE OF THIS CROSS ANSWERING TESTIMONY?**

6 **A.** My testimony comments on the testimony of Staff witnesses Buckley and Foisy  
7 addressing issues related to Net Power Costs (“NPC”) and Renewable Energy  
8 Credit (“REC” or “Green Tag”) sales revenues.

9 **Buckley Testimony**

10 **Q. PLEASE DISCUSS MR. BUCKLEY’S PROPOSED NPC ADJUSTMENTS.**

11 **A.** Mr. Buckley’s adjustments overlap with several of my adjustments. Table 1,  
12 below, compares Mr. Buckley’s NPC adjustment to mine. I am in agreement in  
13 concept with Mr. Buckley regarding these adjustments. There are a few instances  
14 in which our numbers differ by a consequential amount. I will explain those  
15 shortly. Overall, our results total to nearly the same amounts, even though we  
16 sometimes used different methods to compute these adjustments. I did, however,  
17 address several other issues that were not addressed by Staff in its responsive  
18 testimony. All of my recommended adjustments are shown in Table 1 in Exhibit  
19 No. \_\_ (RJF-1CT) at page 2.

**Table 1**

Summary of Staff's Net Power Cost Adjustments			Summary of Comparable ICNU Adjustments		
	WCA \$	WA \$ (1)	ICNU Adjustment	WCA \$	WA \$ (1)
A. Arbitrage Sales Margins	\$ 2,377,437	\$ 527,315	1	\$ 2,641,596	\$ 585,874
B. SCL Stateline Contract	\$ 2,125,412	\$ 471,416	5	\$ 3,958,800	\$ 878,014
C. SMUD Contract Shaping	\$ 2,499,818	\$ 554,460	6	\$ 2,067,393	\$ 458,523
D. Colstrip Outage	\$ 1,545,939	\$ 342,889	17	\$ 1,697,533	\$ 376,492
E. DC Intertie	\$ 4,766,400	\$ 1,057,187	9	\$ 4,766,400	\$ 1,057,130
F. Idaho PTP	\$ 1,583,040	\$ 351,118	8	\$ 1,641,156	\$ 363,989
G. Wind Integration Costs	\$ 5,504,428	\$ 1,220,882	12-15	\$ 3,713,010	\$ 823,501
H. Gas Price Update	\$ 3,457,535	\$ 766,881	20	\$ 3,457,535	\$ 766,840
Total Adjustments	\$ 23,860,009	\$ 5,292,148	Total	\$ 23,943,424	\$ 5,310,364

1 **Q. IS YOUR ADJUSTMENT 1 (ADDED SALES MARGINS) COMPARABLE**  
2 **TO MR. BUCKLEY’S ADJUSTMENT A. (ARBITRAGE SALES**  
3 **MARGINS)?**

4 **A.** Yes. The difference between our adjustments is that Mr. Buckley recommends a  
5 90/10 split of arbitrage margins between ratepayers and the Company. I continue  
6 to recommend that all benefits be flowed through to ratepayers.

7 **Q. WHY DO YOUR ADJUSTMENTS 5 (SCL CONTRACT TERMINATION),**  
8 **6 (SMUD SHAPING) AND 17 (COLSTRIP OUTAGE) DIFFER FROM MR.**  
9 **BUCKLEY’S COMPARABLE ADJUSTMENTS?**

10 **A.** In the case of the Seattle City Light (“SCL”) contract, I removed the contract  
11 from the test year, and Mr. Buckley removed the energy imbalance from the last  
12 two months of the test year. While the two results appear to differ substantially,  
13 the primary reason is the impact of removing the largely uncompensated wind

1 integration costs from the model. I included this as part of adjustment 8, while  
2 Mr. Buckley included this as part of his adjustment G., wind integration costs.  
3 Once that difference is accounted for, our adjustments are reasonably close.

4 Another difference (for all three adjustments) is that my results were based  
5 on GRID model runs, while Mr. Buckley computed his adjustments outside of the  
6 model. This can make a difference in some cases. I recommend using the model  
7 where practicable. However, the fact that our results total to nearly the same  
8 amount shows both approaches to be reasonable.

9 **Q. IS YOUR ADJUSTMENT 8 (PACE TRANSMISSION COSTS)**  
10 **COMPARABLE TO MR. BUCKLEY'S ADJUSTMENT F. (IDAHO POINT**  
11 **TO POINT)?**

12 **A.** Yes, both seek to remove transmission related costs not properly assigned to the  
13 West Control Area ("WCA") model. The only difference is that I also removed  
14 certain minor transmission costs associated with non-WCA loads.

15 **Q. EXPLAIN THE DIFFERENCE BETWEEN THE WIND INTEGRATION**  
16 **ADJUSTMENT COMPUTED BY MR. BUCKLEY AND YOURSELF.**

17 **A.** Mr. Buckley's wind integration adjustment G. parallels my adjustments 12, 13, 14  
18 and 15.<sup>1/</sup> My adjustment is less than Mr. Buckley's because I had already  
19 removed the wind integration cost associated with the SCL Stateline contract in  
20 my adjustment 8, for a different reason, as discussed above. Note that the SCL  
21 wind integration costs could be removed by the Commission under either the  
22 logic supporting my adjustment 8, or Mr. Buckley's reasoning behind adjustment  
23 G.

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<sup>1/</sup> Mr. Buckley does not have an adjustment comparable to my adjustment 11, which incorporates the intra-hour wind integration costs into the GRID model.

1 **Q. MR. BUCKLEY RECOMMENDS THAT THE COMPANY BE ALLOWED**  
2 **TO UPDATE FOR CHANGES IN GAS PRICES BASED ON THE THREE**  
3 **MONTH FORWARD PRICE AVERAGE. PLEASE COMMENT.**

4 **A.** Mr. Buckley has indicated it is Washington Utility and Transport Commission  
5 (“WUTC”) policy to allow such updates, as it has done in the case of Avista.<sup>2/</sup> If  
6 so, the update should be limited to only the specific gas price changes related to  
7 the three month average of forward prices. There are two reasons for this. First,  
8 both Mr. Buckley, and I have already recommended an update be allowed for  
9 specific error corrections, gas and electric prices, and other factors. Second, in  
10 preparing the update requested by Mr. Buckley in WUTC Data Request 143, the  
11 Company included GRID changes that were inappropriate and not responsive to  
12 Staff’s original request. Given the timing of any subsequent updates, it would be  
13 inappropriate to allow the Company to introduce any new adjustments when  
14 parties have no opportunity to address them in testimony. Consequently, if an  
15 additional update is allowed, it should be limited to a gas price update because the  
16 schedule does not currently provide for surrebutal testimony.

17 **Q. CAN YOU DESCRIBE HOW MR. BUCKLEY’S UPDATE WOULD**  
18 **ACTUALLY OCCUR?**

19 **A.** No. ICNU requested in discovery that PacifiCorp provide a GRID model run  
20 implementing Mr. Buckley’s recommendation. PacifiCorp provided incomplete  
21 responses on October 26, 2010, and ultimately informed ICNU on November 2,  
22 2010, that it would provide the information as part of its rebuttal testimony. As  
23 this information is being provided late, and there was insufficient time to file a

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<sup>2/</sup> Exhibit No.\_\_(APB-1CT), page 29, lines 1-3.

1 motion to compel, ICNU may seek leave to file additional cross answering  
2 testimony on this issue after reviewing the rebuttal update.

3 **Foisy Testimony**

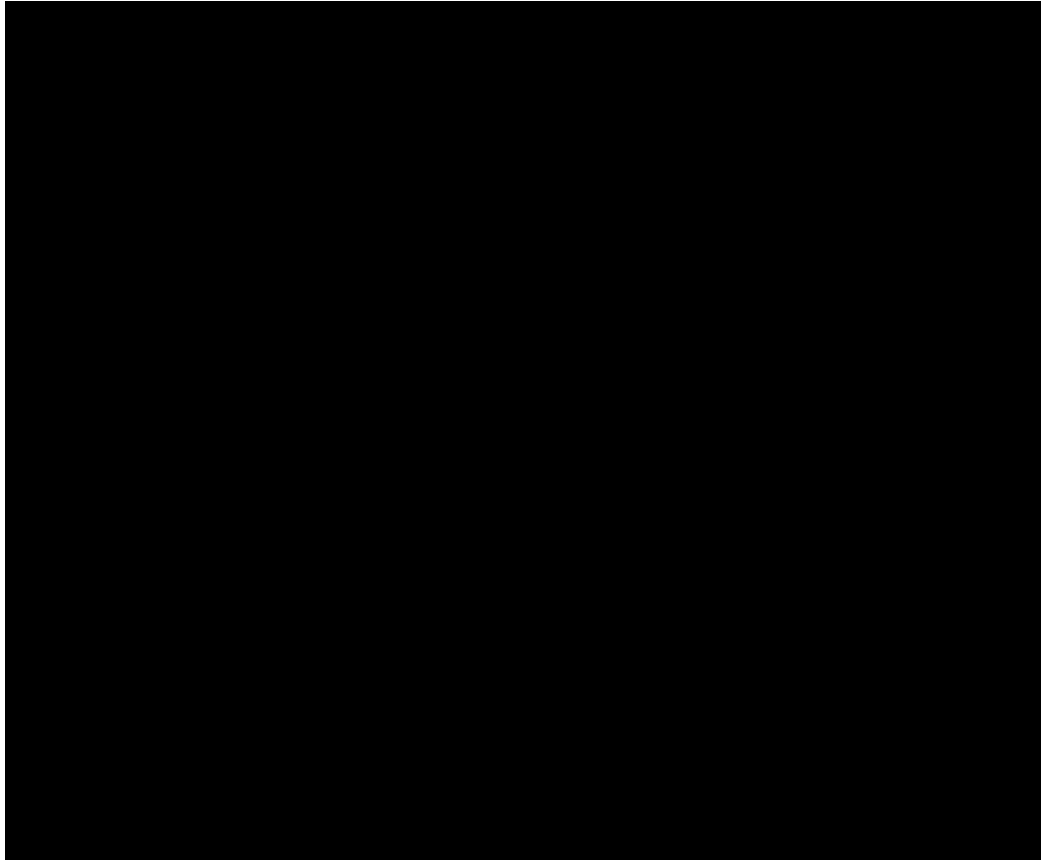
4 **Q. DOES YOUR REC SALES REVENUE ADJUSTMENT OVERLAP WITH**  
5 **MR. FOISY'S ADJUSTMENT?**

6 **A.** Yes. We are in agreement that REC sales revenues should not be eliminated from  
7 the test year, as proposed by the Company. The primary difference between our  
8 adjustments is that Mr. Foisy reflects the 2009 actual REC sales revenues (\$4.2  
9 million) in the test year, while I project the level of REC sales revenues for the  
10 rate effective period (\$4.9 million). While we approached the problem from  
11 different directions, our adjustments are reasonably close. One advantage of Mr.  
12 Foisy's approach is that if the principle of using historical REC revenues in the  
13 test year was applied in future cases, it would allow for ratepayers to obtain the  
14 benefits of the explosive growth in REC revenues in 2010. My approach is based  
15 on forecasts for the rate effective period, rather than actual historic data and is  
16 subject to somewhat greater uncertainty. Mr. Foisy's approach, however, does  
17 not account for all of the huge growth in REC sales that may not be passed back  
18 to ratepayers, especially if PacifiCorp does not file a new general rate case using a  
19 2010 test period.

20 **Q. DOES THE UPDATED QUARTERLY REC REPORT PROVIDE ANY**  
21 **USEFUL INFORMATION RELATIVE TO THIS ISSUE?**

22 **A.** Yes. The confidential figure below shows Washington allocated REC sales  
23 revenues from January 2009 to June 2010, based on the Company's Quarterly  
24 REC reports. It demonstrates that the average monthly revenues proposed by

1 Staff and ICNU are quite close to each other, but far less than recent results. In  
2 fact, year to date, Washington allocated REC sales have totaled [REDACTED] million.  
3 Annualized, this would amount to [REDACTED] million or about [REDACTED] my recommended  
4 adjustment. The Commission could use this figure for the test year REC  
5 revenues, and these figures illustrate the Staff adjustment and the ICNU  
6 adjustment presented in Exhibit No.\_\_(RJF-1CT) are quite conservative.



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8 **Q. DO YOU BELIEVE THAT THE COMPANY HAS BEEN PROFITING**  
9 **FROM THESE REC SALES?**

10 **A.** Yes. In this instance, PacifiCorp is taking advantage of regulatory lag to obtain  
11 significant benefits for shareholders associated with REC sales. For example,

1 revenues from RECs sales have escalated from \$6.1 million in 2008,<sup>3/</sup> to \$50.8  
2 million in 2009<sup>4/</sup> and projected to be over \$91 million in 2010,<sup>5/</sup> with both  
3 volumes and prices escalating rapidly. The Company did not include these  
4 revenues in its Washington normalized results of operations.<sup>6/</sup> If the 2009 REC  
5 revenues were included in the normalized results, the Company's Washington  
6 return on equity would increase.<sup>7/</sup> Obviously, if the sales associated with 2010  
7 REC revenues were included there would be much larger impact on the  
8 Company's Washington earnings.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A.** Yes.

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<sup>3/</sup> Re Rocky Mountain Power, Wyoming Public Service Commission Docket No. 20000-352-ER-09, Exhibit BSD-2 at 3.5 (October 2, 2009).

<sup>4/</sup> WUTC v. PacifiCorp, WUTC Docket No. UE-100749, Exhibit RBD-3 at 3.5 (May 4, 2010).

<sup>5/</sup> Re Rocky Mountain Power 2010 General Rate Case, Idaho Public Utility Commission Docket No. PAC-E-10-07, Steven R. McDougal Exhibit 2 at 3.6.3 (May 28, 2010).

<sup>6/</sup> Exhibit No. \_\_ (RJF-9) (PacifiCorp response to ICNU data request 20.1).

<sup>7/</sup> Id.