

Docket No. UE-032065  
Exhibit No. \_\_\_\_ (Panel-T1)

Witnesses: Braden, Schooley, Steward, Omohundro, Kelly, Widmer, and Cavanagh

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a PACIFIC POWER  
AND LIGHT COMPANY,

Respondent.

DOCKET NO. UE-032065

**JOINT TESTIMONY OF ROGER A. BRADEN, THOMAS E. SCHOOLEY,  
JOELLE STEWARD, CHRISTY A. OMOHUNDRO, ANDREA L. KELLY,  
MARK T. WIDMER, AND RALPH CAVANAGH  
IN SUPPORT OF THE SETTLEMENT AGREEMENT**

August 2003

1 **Q. Please state your names and positions.**

2 A. My name is Roger A. Braden. I am employed as the Assistant Director for  
3 Energy at the Washington Utilities and Transportation Commission  
4 (“Commission”) and am appearing here on behalf of Commission Staff (“Staff”).  
5 My qualifications are included in my prefiled testimony in this proceeding,  
6 Exhibit No. \_\_\_\_ (RAB-1T).

7 My name is Thomas E. Schooley. I am employed by the Commission as  
8 a Regulatory Analyst in the Regulatory Services Division. My qualifications are  
9 included in my prefiled testimony in this proceeding, Exhibit No. \_\_\_\_ (TES-1T).

10 My name is Joelle Steward. I am employed by the Commission as a  
11 Regulatory Analyst in the Regulatory Services Division. My qualifications are  
12 included in my prefiled testimony in this proceeding, Exhibit No. \_\_\_\_ (JT-2).

13 My name is Christy A. Omohundro. I am employed by PacifiCorp (the  
14 “Company”) as a Managing Director, Regulation. My qualifications are shown  
15 in Exhibit No. \_\_\_\_ (Panel-2).

16 My name is Andrea L. Kelly. I am employed by the Company as a  
17 Managing Director, Strategic Projects. My qualifications are included in my  
18 prefiled direct testimony in this proceeding, Exhibit No. \_\_\_\_ (ALK-1T).

19 My name is Mark T. Widmer. I am employed by the Company as a  
20 Manager, Regulation. My qualifications are included in my prefiled direct  
21 testimony in this proceeding, Exhibit No. \_\_\_\_ (MTW-1T).

1 My name is Ralph Cavanagh. I am the Energy Program Director for the  
2 Natural Resources Defense Council. My qualifications are included in my  
3 prefiled testimony in this proceeding, Exhibit No. \_\_\_\_ (RC-1T).

4 **Q. What is the purpose of this joint testimony?**

5 A. The purpose is to describe and support the Settlement Agreement of August 27,  
6 2004 among Staff, the Company, and NRDC filed with the Commission on that  
7 date. A copy of the Settlement Agreement – which has been revised to reflect  
8 the addition of NRDC – is included as Exhibit No. \_\_\_\_ (Panel-3).

9 **Q. What topics will the Parties be covering in this joint testimony?**

10 A. This testimony describes the procedural background and process prior to  
11 settlement, and the provisions of the Settlement Agreement related to (1) inter-  
12 jurisdictional cost allocation, (2) revenue requirement, (3) net power costs,  
13 (4) prudence of resource acquisitions, (5) rate spread and rate design,  
14 (6) regulatory assets and deferred debits, (7) removing disincentives associated  
15 with demand-side initiatives, and (8) general provisions.

16 **Procedural Background and Process**

17 **Q. Please describe the processing of PacifiCorp's general rate case since it was**  
18 **filed.**

19 A. On December 16, 2003, PacifiCorp filed revised tariff schedules to effect a \$26.7  
20 million (13.5%) increase in its base prices to Washington electric customers. The  
21 filing was based on normalized results of operations for Washington for the test  
22 period ending March 31, 2003. The filing was suspended by the Commission at  
23 its January 14, 2004 public meeting.

1           At the prehearing conference on January 26, 2004, the Public Counsel  
2           Section of the Office of Attorney General (“Public Counsel”), Industrial  
3           Customers of Northwest Utilities (“ICNU”), Citizens’ Utility Alliance, the Energy  
4           Project,<sup>1</sup> and Natural Resources Defense Council (“NRDC”) were granted  
5           intervention in the proceeding.

6           Following discovery by Staff and the other parties on the Company’s  
7           direct testimony, Staff, Public Counsel, ICNU, the Citizens’ Utility Alliance and  
8           NRDC filed opposing testimony on June 30, 2004. Staff, for its part,  
9           recommended a revenue requirement increase of \$7.1 million in its testimony.  
10          (Braden, Exhibit No. \_\_\_\_ (RAB-1T) at 15.)

11          In the Company’s rebuttal testimony filed July 28, 2004, the Company  
12          reduced its requested rate relief to \$25.7 million. Thereafter, Staff and other  
13          parties to the case conducted discovery on the Company’s rebuttal testimony.

14          **Q.    When did settlement discussions commence between the Parties?**

15          A.    Following the filing of the Company’s rebuttal testimony, a number of  
16          discussions occurred between Staff and the Company regarding the merits of  
17          various Staff adjustments and the Company’s responsive testimony. Based on  
18          these discussions, it appeared that it was worthwhile to get together to explore a  
19          possible narrowing of the issues to be litigated in this case. Representatives from  
20          Staff and the Company therefore met at the Commission’s offices in Olympia on  
21          August 18. After discussing various individual issues, we reached agreement on  
22          the broad outlines of an overall settlement proposal. In the days thereafter, we

---

<sup>1</sup> Comprising the Energy Project, Opportunity Council, Northwest Community Action Center,

1 contacted other parties to the case in the interest of broadening participation in the  
2 settlement. NRDC joined in the Settlement Agreement. For various reasons,  
3 other parties to the case were not interested in joining in the settlement. The  
4 Parties therefore finalized the Settlement Agreement, and filed it with the  
5 Commission.

6 **Inter-Jurisdictional Cost Allocations**

7 **Q. What is the issue with respect to inter-jurisdictional cost allocations?**

8 A. The Company's direct testimony in this proceeding proposed adoption by the  
9 Commission of the "Protocol" as the basis for inter-jurisdictional cost allocation.  
10 Since the filing of the Company's direct case, the Company, in consultation with  
11 various stakeholders outside Washington, developed revisions to the Protocol.  
12 The Revised Protocol, which was filed in Oregon, Utah, Idaho and Wyoming,  
13 incorporates these revisions. Although the Company included the Revised  
14 Protocol as an exhibit in its rebuttal testimony, the Company proposed, as an  
15 interim solution, that this case be decided on the basis of the Protocol. Staff, for  
16 its part, calculated its revenue requirement recommendation on the basis of a  
17 Control Area methodology, which Staff also proposed as an interim solution  
18 pending the development of a Washington-only approach that would be  
19 developed through a collaborative process involving Staff, the Company and  
20 other parties. The Parties thus lacked agreement on a common basis for  
21 evaluating the Company's case. Moreover, both Staff and the Company were  
22 proposing a solution that would be interim in nature.

---

and Industrialization Center of Washington.

1 **Q. What does the Settlement Agreement provide with respect to inter-**  
2 **jurisdictional cost allocations?**

3 A. The Protocol represents the only common basis upon which the Parties could  
4 evaluate each other's proposed adjustments. The Parties therefore agree to  
5 calculate PacifiCorp's revenue requirement in this proceeding on the basis of the  
6 Protocol. Use of the Protocol method is for purposes of this proceeding only.

7 **Q. How will this issue be resolved on a going-forward basis?**

8 A. Following the conclusion of this proceeding, the Parties agree to jointly discuss  
9 development of a mutually acceptable cost allocation proposal applicable to  
10 Washington.

11 **Q. What method will the Company use in the meantime for purposes of its**  
12 **regulatory filings?**

13 A. The Settlement Agreement provides that until such time as a mutually acceptable  
14 cost allocation proposal is agreed upon by the Parties and presented to the  
15 Commission for approval in a subsequent proceeding, the Company will use the  
16 Revised Protocol as the basis for its routine regulatory filings with the  
17 Commission, including filing requirements pursuant to Chapters 480-100 WAC  
18 and 480-146 WAC and successor provisions. The Company agrees to maintain  
19 its books and records and the existing capability of its power cost and allocation  
20 models to permit the recalculation of the Company's Washington cost of service  
21 as reasonably requested by Staff or other interested persons. The Settlement  
22 Agreement states that if a cost study is requested in connection with these  
23 regulatory filings, the provisions of WAC 480-07-400(1)(c)(iii) would apply to  
24 such request.

1 **Q. Is the solution reached in this case binding in future proceedings?**

2 A. No. The Settlement Agreement provides that neither the use of the Protocol for  
3 settlement in this proceeding, nor the use of the Revised Protocol for future  
4 reporting periods, shall be considered an agreement by any Party that such inter-  
5 jurisdictional allocation methodologies are sufficient or proper for use in any  
6 future proceedings before the Commission.

7 **Q. Is this a satisfactory resolution of the inter-jurisdictional cost allocation**  
8 **issue?**

9 A. Not entirely. Although we are satisfied that this resolution provides a reasonable  
10 basis to proceed for purposes of setting rates in this proceeding, it is  
11 disappointing that we are not able to recommend a more durable solution. This  
12 outcome is simply a consequence of the evolving nature of the Company's inter-  
13 jurisdictional cost allocation methodology versus the limitations faced in this  
14 proceeding by needing to process this rate case within the suspension period.  
15 While the Company believes that there is some momentum behind the Revised  
16 Protocol as a result of negotiations between the Company and stakeholders in  
17 other jurisdictions that occurred after the filing of the original Protocol in this  
18 proceeding, the Parties agree that the development occurred too late to enable the  
19 Revised Protocol to be thoroughly evaluated and used as the basis for setting  
20 rates in this proceeding. For that reason, the Parties agreed in subparagraph 8(c)  
21 of the Settlement Agreement to exclude the testimony and exhibits in the  
22 Company's rebuttal case that refer to the Revised Protocol, in accordance with  
23 Staff's Motion to Strike. Looking ahead, however, in the discussions following  
24 the conclusion of this case, Staff, the Company, and the other parties will be able

1 to evaluate this issue with the benefit of a clarified situation in PacifiCorp's other  
2 states, and proceed accordingly. We are reasonably confident of being able to  
3 offer a durable solution for the Commission's consideration in the Company's  
4 next general rate case in Washington.

5 **Revenue Requirement**

6 **Q. What does the Settlement Agreement provide with respect to the**  
7 **Company's revenue requirement in this proceeding?**

8 A. The Settlement Agreement provides that PacifiCorp will reduce its revenue  
9 requirement request to reflect the adjustments listed on Attachment A to the  
10 Settlement Agreement, which is included as Exhibit No. \_\_\_\_ (Panel-3).  
11 PacifiCorp's rebuttal testimony supported a revenue requirement increase of  
12 \$25.7 million. The adjustments listed in Attachment A reduce this amount by  
13 approximately \$10.2 million, resulting in a recommended revenue requirement  
14 increase of \$15.5 million. We will discuss the individual adjustments below, in  
15 the order presented in Attachment A (with the exception of Net Power Costs,  
16 which is presented in a separate section of our testimony below).

17 **Q. What is the basis for the adjustment for temperature normalization?**

18 A. Staff witness Mariam proposed an adjustment of approximately \$2.7 million to  
19 the Company's temperature normalization calculation. The adjustment failed to  
20 reflect the incremental power costs associated with the increased loads, however.  
21 The Settlement Agreement includes a net adjustment of \$614,782, which reflects  
22 these incremental power costs.

23



1 **Q. What is the basis for the adjustment to working capital?**

2 A. Both Staff and Public Counsel made adjustments to the Company's proposed  
3 calculation of cash working capital. Although the Parties disagreed on how to  
4 determine a working capital amount, for settlement purposes, the Parties agree  
5 on a total of approximately \$12 million for working capital.

6 **Q. What is the basis for the adjustment to incentive pay-out?**

7 A. Staff witness Huang proposed an adjustment that would disallow 50% of the  
8 pay-out under the Company's incentive compensation program. For purposes of  
9 settlement, the Parties agreed upon an adjustment equal to 25% of these costs.

10 **Q. What is the basis for the adjustment to international assignee costs?**

11 A. Staff witness Huang proposed an adjustment related to certain costs associated  
12 with the Company's international assignees. The Settlement Agreement adopts  
13 an agreed upon amount, calculated by reference to exclusion of club membership  
14 dues.

15 **Q. What is the basis for the adjustment for the IRS settlement?**

16 A. Both Staff witness Kermode and Public Counsel witness Dittmer proposed  
17 adjustments challenging the recoverability in rates of the amounts paid by the  
18 Company in the IRS settlement. The Settlement Agreement adopts an agreed  
19 upon amount for this adjustment, which is calculated as approximately one-half  
20 of the adjustment amount proposed by Mr. Kermode.

21

1 **Q. What is the basis for the adjustment to property insurance?**

2 A. Staff witness Schooley proposed an adjustment to the Company's property  
3 insurance expense. The Settlement Agreement adopts an agreed upon amount  
4 for this adjustment.

5 **Q. What is the basis for the adjustment to environmental costs?**

6 A. Staff witness Schooley proposed an adjustment to the Company's costs for  
7 environmental remediation. The Settlement Agreement adopts an agreed upon  
8 amount for this adjustment, which is calculated by reference to a proposed  
9 exclusion of legal and Company personnel costs.

10 **Q. What is the basis for the adjustment for severance normalization?**

11 A. Staff witness Huang proposed an adjustment to the Company's accounting for  
12 severance costs. The Settlement Agreement accepts Staff's position to use a  
13 three-year average for purposes of this cost item.

14 **Q. What is the basis for the adjustment to property taxes?**

15 A. Staff witness Kermode proposed an adjustment to the Company's property tax  
16 expense. The Settlement Agreement accepts Staff's position.

17 **Q. What is the basis for the adjustment for RTO costs?**

18 A. Both Staff witness Buckley and ICNU witness Schoenbeck challenged the  
19 Company's recovery of costs related to the development of a Regional  
20 Transmission Organization. The Settlement Agreement disallows these costs for  
21 purposes of this proceeding. Subparagraph 10(d) of the Settlement Agreement  
22 authorizes the Company to seek deferred accounting for these costs.

23

1 **Q. What is the basis for the adjustment for cost of capital?**

2 A. A number of issues were in dispute between Staff and the Company with respect  
3 to cost of capital. Staff witness Hill proposed a return on equity of 9.375%, as  
4 compared to the 11.25% recommended by Company witnesses Hadaway and  
5 Furman. The Parties also disagreed on capital structure issues, with Staff witness  
6 Hill proposing an equity ratio of 44.09% and Company witness Hadaway  
7 recommending 47.08%. Staff also proposed to include short-term debt in the  
8 capital structure, while the Company's proposed capital structure did not price out  
9 this component separately. The Parties were unable to reach agreement on the  
10 individual items at issue in connection with the cost of capital. At the same time,  
11 we were able to reach agreement upon an adjustment of approximately \$3.5  
12 million to the revenue requirement proposed in the Company's rebuttal case,  
13 which is the amount shown in Attachment A to Exhibit No. \_\_\_\_ (Panel-3). This  
14 adjustment, when considered along with the other adjustments in this Settlement  
15 Agreement, produces an overall rate of return of 8.39%.

16 **Q. Is there a particular equity return or capital structure that is implied by this**  
17 **adjustment?**

18 A. No. With respect to the individual cost of capital components at issue upon which  
19 the Parties were unable to reach agreement, the Parties agree (1) that the overall  
20 cost of capital adjustment does not represent any particular outcome on any  
21 particular issue, and (2) not to characterize this settlement as reflecting a  
22 particular result on any individual issue.

23

1 **Q. What is the basis for the adjustment entitled “Unspecified ICNU/Public**  
2 **Counsel adjustments”?**

3 A. As discussed in this testimony, the Settlement Agreement adopts several of the  
4 adjustments proposed by ICNU and Public Counsel. The Parties recognize that  
5 some of the remaining ICNU and Public Counsel adjustment may have merit as  
6 well. To take account of these remaining adjustments, the Settlement Agreement  
7 reflects an agreed upon amount of \$600,000 as a further reduction to the  
8 Company’s revenue requirement.

9 **Q. What is the basis for the adjustment to interest expense?**

10 A. The interest expense adjustment reflects a true-up to capture the changes to rate  
11 base arising from the various revenue requirement adjustments.

12 **Q. Please describe Exhibit No. \_\_\_\_ (Panel-4), Results of Operations,**  
13 **Adjustments, and Revenue Requirements.**

14 A. Exhibit No. \_\_\_\_ (Panel-4) presents the results of the settlement in the same format  
15 as Exhibit No. \_\_\_\_ (TES-2). The exhibit is based on PacifiCorp’s rebuttal case as  
16 detailed in the Response to Bench Request No. 6. Settlement adjustments are  
17 incorporated into the appropriate adjustment number which is then shaded.  
18 Page 1 of the exhibit shows the unadjusted results and the adjustments all rounded  
19 to the nearest thousand dollars.

20 **Q. Please describe Exhibit No. \_\_\_\_ (Panel-5), Revenue Requirement Impact of**  
21 **Settlement Agreements.**

22 A. Exhibit No. \_\_\_\_ (Panel-5) presents the agreements of the settlement and the  
23 incremental revenue requirement impact of each. Each adjustment is identified by  
24 where it appears in Exhibit No. \_\_\_\_ (Panel-4) and should nearly tie to Attachment  
25 A of the Settlement Agreement. No specific adjustment is shown for “cost of

1 capital” as this is the result of the agreed upon return on rate base of 8.39%. Also,  
2 no specific adjustment is shown for “interest expense true-up” as the spreadsheet  
3 automatically recalculates this number as the rate base changes.

4 **Q. What is the Parties’ position with respect to the overall revenue requirement**  
5 **recommendation?**

6 A. The Parties respectfully submit that the recommended revenue requirement  
7 increase of \$15,501,000 will result in rates for the Company that are fair, just,  
8 reasonable and sufficient.

9 **Net Power Costs**

10 **Q. What does the Settlement Agreement provide with respect to net power**  
11 **costs?**

12 A. The Settlement Agreement provides that PacifiCorp will reduce its filed net  
13 power costs from \$555 million on a Total Company basis (as stated in the  
14 Company’s rebuttal case) to \$534.1 million. The individual adjustments adopted  
15 for purposes of the Settlement Agreement are listed in Attachment B to the  
16 Settlement Agreement, which is included as Exhibit No. \_\_\_ (Panel-3). The  
17 adjustments listed in Attachment B reduce the Company’s annual net power  
18 costs by \$20,876,709, which is about \$1.93 million on a Washington-allocated  
19 basis. The individual adjustments are discussed below, in the order presented in  
20 Attachment B.

21 **Q. How were the amounts shown on Attachment B calculated?**

22 A. Once the particular adjustments were agreed upon by the Parties, the Company  
23 performed another run of its GRID power cost model to incorporate those  
24 adjustments. Exhibit No. \_\_\_ (Panel-6) is the output from this model run.

25

1 **Q. What is the basis for the adjustment entitled “Remove Swift”?**

2 A. This adjustment reflects the removal of the near-term impact on the loss of  
3 reserves at Swift 1 as a result of the canal embankment failure on Cowlitz’s  
4 Swift 2 project.

5 **Q. What is the basis for the adjustments for Aquila hydro hedge, J. Aron**  
6 **temperature hedge, and Morgan Stanley temperature hedge?**

7 A. Both Staff witness Buckley and ICNU witness Falkenberg proposed adjustments  
8 that would remove the costs associated with these hedges from the Company’s  
9 net power cost calculations. These adjustments reflect the proposals of Staff and  
10 ICNU to exclude these costs. It should be noted that corresponding to the  
11 exclusion of the hedge costs, any payments received by the Company under  
12 these hedges would be retained by the Company and not included for ratemaking  
13 purposes.

14 **Q. What is the basis for the hydro normalization adjustment?**

15 A. Staff witness Buckley proposed a hydro normalization adjustment that would  
16 exclude certain years from the water year record considered in normalizing hydro  
17 costs, specifically those years where generation falls outside one standard  
18 deviation from the mean. This excludes fourteen of the forty years that the  
19 Company included in its hydro normalization adjustment. For purposes of this  
20 settlement, this adjustment is accepted as quantified by the Company’s power  
21 cost model.

22 **Q. What is the basis for the adjustment for Mid-Columbia market caps?**

23 A. Staff witness Buckley proposed an adjustment that would impute additional  
24 energy sales from the Jim Bridger coal plant. This adjustment was proposed as a

1 means for correcting the market caps imposed by the Company for modeling  
 2 purposes on the Mid-Columbia market during light load hours. The Settlement  
 3 Agreement accepts this adjustment.

4 **Q. What is the basis for the CT dispatch adjustment?**

5 A. ICNU witness Falkenberg proposed an adjustment relating to the logic of the  
 6 dispatch of the Company's combustion turbines for modeling purposes. The  
 7 Settlement Agreement adopts this adjustment.

8 **Q. Are there other adjustments proposed by ICNU that are incorporated in the  
 9 annual net power costs for settlement purposes?**

10 A. Yes. As indicated in Attachment B, the Company included several updates,  
 11 corrections or adjustments to net power costs in its rebuttal case. The annual net  
 12 power costs recommended in the Settlement Agreement reflects the adoption of  
 13 the following adjustments proposed by ICNU witness Falkenberg:

<b>Adjustment</b>	<b>Amount (\$)</b>
West Valley heat rates	(1,574,536)
Wyodak capacity	(1,626,984)
Fort James cogeneration	(401,733)
Market cap input error	(2,931,927)
Quick start benefits	<u>(1,000,000)</u>
<b>TOTAL</b>	<b>(7,535,180)</b>

14  
 15 **Prudence of Resource Acquisitions**

16 **Q. What does the Settlement Agreement provide with respect to the prudence  
 17 of certain resources at issue in this case?**

18 A. The revenue requirement recommended in the Settlement Agreement reflects, for  
 19 purposes of this proceeding only, the inclusion in rates of the resources acquired  
 20 by the Company since its last litigated general rate proceeding in Washington,

1 Cause No. U-86-02. These resources include those described in the Joint Report  
2 in the Prudence Review of Generating Resources Acquired Since 1986, Exhibit  
3 No. \_\_\_\_ (MTW-4) (“Joint Report”), as well as West Valley and Gadsby.

4 **Q. Is this resolution intended to be binding for purposes of future proceedings?**

5 A. Yes, in the case of the resources described in the Joint Report that are located in  
6 the Company’s Western Control Area (Hermiston and James River). The Parties  
7 agree that these resources were prudently acquired for purposes of serving  
8 Washington customers, and are properly included in the Company’s rate base for  
9 purposes of this case and subsequent proceedings. This is not the case with  
10 respect to the remaining resources, however.

11 **Q. Please explain.**

12 A. Due to Staff’s use of a Control Area approach as the basis for cost allocations in  
13 its revenue requirement recommendation, Staff does not take a position for  
14 purposes of this Settlement Agreement with respect to the prudence for purposes  
15 of Washington rates of those resources acquired since 1986 located in the  
16 Company’s Eastern Control Area (West Valley, Gadsby, Craig, Hayden, Foote  
17 Creek, and Cholla). Under the Settlement Agreement, the prudence of those  
18 resources will be examined in a subsequent proceeding if and when it is  
19 determined that the inter-jurisdictional cost allocation methodology requires their  
20 prudence to be evaluated for purposes of setting Washington rates.

21



1 **Q. Until the prudence of the Eastern Control Area resources is established, how**  
2 **can the Commission be assured that rates set in this proceeding are**  
3 **reasonable?**

4 A. Since the Company's last general rate case in Washington (Docket No.  
5 UE-991832, the parties investigated the prudence of four of these East-side  
6 resources: Craig, Hayden, Cholla, and Foote Creek. The results of their  
7 investigation are included in the Joint Report, Exhibit No. \_\_\_\_ (MTW-4). The  
8 Joint Report concludes that these resources have been shown to be prudent on a  
9 system-wide basis. According to the Joint Report:

10 "Based on the information provided, Staff believes that the resources were  
11 acquired prudently when evaluated from a system-wide basis. Staff did  
12 not investigate whether the resources were acquired to satisfy the demand  
13 of Washington customers. These resources could be subjected to  
14 investigations in future rate proceedings that will determine whether these  
15 resources were acquired prudently to satisfy increased load growth or  
16 demand in Washington State, including consideration of the Company's  
17 commitments under merger agreements and orders, the impact of the  
18 "interjurisdictional" allocation used by the Company, and particular load-  
19 growth characteristics of the Company's Washington service territory."

20 The record thus demonstrates the prudence of these resources, with the remaining  
21 issue limited to the whether their costs are properly allocable to Washington  
22 customers. Although Gadsby and West Valley have not yet undergone a thorough  
23 prudence review, the record contains evidence sufficient to make a *prima facie*  
24 showing that their acquisition was prudent, at least on a system-wide basis.

25 However, as with the other East-side resources, the issue remains as to whether  
26 the costs of Gadsby and West Valley are properly allocable to Washington.

27

1            **Rate Spread and Rate Design**

2            **Q.    What does the Settlement Agreement provide with respect to rate spread**  
3            **and rate design?**

4            A.    Paragraph 11 of the Settlement Agreement provides that the Parties agree to  
5            adopt the recommendations regarding rate spread and rate design set forth in the  
6            Joint Testimony of Jim Lazar, Don Schoenbeck and Joelle Steward, Exhibit  
7            No. \_\_\_ (JT-1T).

8            **Q.    Is there an exhibit that illustrates the implementation of these rate spread**  
9            **and rate design recommendations, as applied to the recommended revenue**  
10           **requirement increase?**

11           A.    Yes. Exhibit No. \_\_\_ (Panel-7) shows the rate impacts assuming the adoption of  
12           the revenue requirement increase recommended in the Settlement Agreement,  
13           and following the rate spread and rate design recommendations from Exhibit  
14           No. \_\_\_ (JT-1T). According to this exhibit, the overall average increase is 7.8%.  
15           For rate spread, as recommended in Exhibit No. \_\_\_ (JT-1T), Schedule 24, Small  
16           General Service, will receive an increase of 75 percent of the average percentage  
17           increase or a 5.9% increase. Other major schedules receive a uniform percentage  
18           increase to recover the remaining revenue requirement.

19                      For rate design, Exhibit No. \_\_\_ (Panel-7) follows the recommendations  
20           in Exhibit No. \_\_\_ (JT-1T) applying increases to the fixed charges and demand  
21           charge components while minimizing increases on energy charges. In addition,  
22           Exhibit No. \_\_\_ (Panel-7) contains monthly billing comparisons presenting  
23           monthly bill impacts of the proposed rate changes for a range of usage levels and  
24           customer types.

1           **Regulatory Assets and Deferred Debits**

2       **Q.    What does the Settlement Agreement provide with respect to regulatory**  
3       **assets and deferred debits?**

4       A.    Paragraph 12 of the Settlement Agreement addresses these issues, which include  
5       FAS 87, Trail Mountain mine costs, and environmental remediation costs.

6       **Q.    What does the Settlement Agreement provide with respect to FAS 87 costs?**

7       A.    The Company filed a Request for an Accounting Order Regarding Treatment of  
8       Pension Liability filed on November 17, 2003 (Docket No. UE-031878).

9       Recognizing that it would soon file a general rate case, the Company requested a  
10       process by which a ruling on the petition be deferred until the completion of the  
11       Company's rate case. Staff agrees to expedited processing of this request. The  
12       Parties further agree to request confirmation by the Commission that the  
13       Company's actuarially determined FAS 87 pension expense is a recoverable  
14       cost.

15       **Q.    What does the Settlement Agreement provide with respect to Trail**  
16       **Mountain mine costs?**

17       A.    On October 13, 2003, PacifiCorp filed a petition for an accounting order  
18       regarding unrecovered costs at its Trail Mountain Mine (Docket No. UE-  
19       031657). Subparagraph 12(b) of the Settlement Agreement recommends that the  
20       Commission issue an accounting order authorizing the Company to accumulate  
21       the \$46.3 million reflecting the Company's unrecovered investment in Trail  
22       Mountain Mine and related mine closure costs and to record such investment in  
23       Account 182.3. The Parties request that the Commission approve deferral of  
24       these costs as of April 1, 2001. In addition, the Settlement Agreement requests

1 Commission authorization of five years as a reasonable period over which to  
2 amortize the costs associated with the Trail Mountain Mine closure, with  
3 amortization commencing with the establishment of the deferral, April 1, 2001,  
4 and ending March 2006.

5 **Q. What does the Settlement Agreement provide with respect to costs**  
6 **associated with environmental remediation?**

7 A. On October 13, 2003, PacifiCorp filed a petition for an accounting order  
8 regarding treatment of environmental remediation costs (Docket No. UE-  
9 031658). Subparagraph 12(c) of the Settlement Agreement recommends that the  
10 Commission issue an accounting order authorizing the Company to record and  
11 defer costs prudently incurred in connection with its environmental remediation  
12 program, on an ongoing basis. Costs eligible for such accounting treatment  
13 would be limited to only those amounts relating to work of outside vendors and  
14 contractors for investigation and feasibility studies, sampling, evaluation,  
15 monitoring, materials, remediation, removal, disposal and post-remediation  
16 work, and do not include costs related to Company personnel or legal costs. In  
17 addition, the Settlement Agreement requests a Commission finding that ten years  
18 is a reasonable period over which to amortize these environmental remediation  
19 costs.

20 **Q. What does the Settlement Agreement provide with respect to other**  
21 **regulatory assets?**

22 A. Subparagraph 12(d) of the Settlement Agreement provides that except as  
23 specifically set forth in the adjustments, all remaining regulatory assets and  
24 liabilities would be recognized in rates for purposes of the settlement.

1           **Removing Disincentives to Demand-Side Initiatives**

2       **Q.    What does the Settlement Agreement provide with respect to removing**  
3       **disincentives associated with demand-side initiatives?**

4       A.    The Parties recommend that the Commission's Order in this proceeding address  
5           the issue of whether it is in the public interest to investigate a true-up  
6           mechanism designed to eliminate financial disincentives associated with the  
7           Company's demand-side initiatives, based on a review of NRDC's testimony  
8           and other information in the record.

9       **Q.    What will happen if the Commission makes the requested finding?**

10      A.    Upon such a finding, the Company will initiate discussions with Staff and  
11           interested parties to review the effects of demand-side investments on the  
12           recovery of fixed costs and other potential disincentives to such investments by  
13           the Company, and to address the potential structure of a true-up mechanism that  
14           would make recovery of these costs independent of retail electricity sales. After  
15           such discussions, the Company may propose a true-up mechanism for  
16           consideration by the Commission at the earliest practicable time.

17           **General Provisions**

18      **Q.    What other terms does the Settlement Agreement include?**

19      A.    The Settlement Agreement represents a negotiated compromise between the  
20           Parties. Thus, the Parties have agreed that no Party shall be deemed to have  
21           approved the facts, principles, methods, or theories employed by the other Parties  
22           in arriving at the settlement, and that the terms incorporated in the Settlement  
23           Agreement should not be viewed as precedent in subsequent proceedings. In

1 addition, each Party has the right to withdraw from the Settlement Agreement if  
2 the Commission accepts the Settlement Agreement upon conditions not proposed  
3 by the Parties.

4 **Q. What if the Commission approves a revenue requirement increase that is**  
5 **different in an amount than recommended in the Settlement Agreement?**

6 A. The Settlement Agreement provides that in the event the Commission accepts the  
7 Settlement Agreement upon the condition that the revenue requirement increase is  
8 different in amount than recommended in this Settlement Agreement (“Revised  
9 Rate Increase”), the Parties propose that the Company be authorized to implement  
10 as of the end of the current suspension period an increase in the amount of the  
11 Revised Rate Increase, subject to refund, pending issuance of a final order by the  
12 Commission. Given the process contemplated by WAC 480-07-750(2)(a) in the  
13 event of rejection of a proposed condition, it may not be possible to complete this  
14 proceeding within the current suspension period. The Company agrees in the  
15 Settlement Agreement to consider extending the suspension period for such  
16 period as is reasonably necessary to accommodate the process contemplated by  
17 WAC 480-07-750(2)(a). In the event the suspension period is in fact extended,  
18 the Parties agree that an appropriate interim measure would be to permit the  
19 Revised Rate Increase to be implemented, subject to refund, pending the final  
20 determination in the case.

21 **Q. What testimony is offered in support of the Settlement Agreement?**

22 A. In addition to this testimony and the accompanying exhibits, the Parties propose  
23 that the following prefiled testimony and exhibits be admitted into the record in  
24 support of the Settlement Agreement:

- 1 (1) The Company’s prefiled direct and rebuttal testimony and exhibits, with  
2 the exception of those portions identified in Attachment A of Staff’s  
3 Motion to Strike, as discussed above,  
4 (2) Staff’s prefiled testimony and exhibits,  
5 (3) NRDC’s prefiled testimony and exhibits, and  
6 (4) The Joint Testimony of Jim Lazar, Don Schoenbeck, and Joelle Steward  
7 regarding Rate Spread and Rate Design (Exhibit No. \_\_\_\_ (JT-1T) and  
8 Exhibit No. \_\_\_\_ (JT-2)).

9 The Parties respectfully submit that this record would provide a sufficient basis  
10 upon which the Commission could approve the Settlement Agreement.

11 **Conclusion**

12 **Q. What do the parties recommend regarding the Settlement Agreement?**

13 A. We recommend that the Commission admit the Settlement Agreement into the  
14 record in this proceeding and adopt the Settlement Agreement in its entirety as  
15 resolution of all the contested issues in this proceeding. WAC 480-07-750(1)  
16 states:

17 “The commission will approve settlements when doing so is lawful, the  
18 settlement terms are supported by an appropriate record, and when the  
19 result is consistent with the public interest in light of all information  
20 available to the commission.”

21 The Parties respectfully submit that the Settlement Agreement meets this public  
22 interest standard, and results in rates for the Company that are fair, just,  
23 reasonable, and sufficient.

1 Q. Does this conclude the Parties' Joint Testimony?

2 A. Yes.