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1 JUDGE MOSS: Let us be on the record. Good
2 morning, everyone. My name is Dennis Moss. I'm an
3 Administrative Law Judge for the Washington Utilities
4 and Transportation Commission, presiding this morning
5 in the matter styled Washington Utilities and
6 Transportation Commission against PacifiCorp, Dockets
7 UE-061546 and UE-060816, and those are consolidated
8 by prior order.

9 I will be presiding by myself for a few
10 minutes this morning while we take care of some
11 preliminaries, and at the appropriate time, I'll
12 bring the Commissioners to the bench and we'll begin
13 with our witnesses.

14 Previous to that, however, our first order
15 of business, as is typically the case, will be to
16 take appearances. So let me begin with the Company.

17 MR. VAN NOSTRAND: Thank you, Your Honor.
18 On behalf of PacifiCorp, James M. Van Nostrand, with
19 Perkins Coie, and also joining me today is Sarah E.
20 Edmonds, E-d-m-o-n-d-s, Sarah is S-a-r-a-h, also with
21 the Portland office with Perkins Coie.

22 JUDGE MOSS: Okay, thank you. And let's
23 just go across the table.

24 MR. PURDY: Thank you, Your Honor. Brad
25 Purdy, appearing on behalf of The Energy Project.

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1 MS. DAVISON: Good morning, Your Honor,
2 Melinda Davison and Irion Sanger, appearing on behalf
3 of the Industrial Customers of Northwest Utilities.

4 JUDGE MOSS: Mr. ffitch.

5 MR. FFITCH: Good morning, Your Honor.
6 Simon ffitch, for the Office of Public Counsel.

7 MR. TROTTER: Donald T. Trotter, for
8 Commission Staff.

9 JUDGE MOSS: Thank you. All right. Now, in
10 terms of developing our record today, I had
11 previously communicated, I believe by e-mail, that my
12 preference would be that, with the exception of
13 exhibits that you have identified as to which you
14 think you may wish to interpose an objection, I would
15 like for us to stipulate the exhibits into the record
16 so as to save hearing time.

17 The practice, of course, at the Commission
18 is constantly evolving and we hope improving and
19 becoming more efficient. And this is something we
20 have started to do recently that seems to work pretty
21 well. So have the parties had an opportunity to
22 discuss this matter or should we just discuss it now?
23 Mr. Van Nostrand.

24 MR. VAN NOSTRAND: We've had some
25 opportunity to discuss it, Your Honor. I think

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1 there's some unresolved issues among us.

2 JUDGE MOSS: That does not surprise me
3 somehow. All right. Let's begin, then. Do you have
4 -- are there exhibits that you have identified, Mr.
5 Van Nostrand, to which you may object?

6 MR. VAN NOSTRAND: Yes, Your Honor.

7 JUDGE MOSS: All right. Could you just give
8 me the numbers, please?

9 MR. VAN NOSTRAND: Fifteen, and this is just
10 an issue of what I would call the doctrine of
11 optional completeness. If we provided a data request
12 response and ICNU included only a portion of that
13 response, we'd prefer to have the entire response put
14 in. I've already discussed that with Ms. Davison, so
15 I think that she's agreeable to that, but that's just
16 on my list. Exhibit 15 falls into that category.

17 JUDGE MOSS: Okay. Before we go on -- I
18 don't know what that was -- let's just resolve that.
19 I have -- I don't believe I have ever denied the
20 application of the doctrine of optional completeness,
21 although considering the volume of paper that that
22 sometimes results in, I probably should start doing
23 so, but I won't today.

24 So is there anybody who's going to have a
25 problem with that and want to argue about it? All

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1 right. As to those, Mr. Van Nostrand and other
2 counsel, we need not mark them as potential
3 objections.

4 MR. VAN NOSTRAND: Okay. The other one I
5 would have would be Exhibit 64, Exhibit 66, Exhibit
6 463, assuming that's the --

7 JUDGE MOSS: I don't seem to have a 463.

8 MR. VAN NOSTRAND: 474, I'm sorry. We have
9 a new numbering this morning. Okay. 474.

10 JUDGE MOSS: All right.

11 MR. VAN NOSTRAND: And now I just -- I have
12 some issues with respect to a couple of pieces of the
13 pre-filed testimony, but they're not really
14 cross-examination exhibits.

15 JUDGE MOSS: Okay. Are you going to move to
16 strike portions?

17 MR. VAN NOSTRAND: Relates to the errata
18 sheets, whether or not the terms under which the
19 errata sheets of certain pieces of testimony are
20 received. Don't necessarily need to strike, but need
21 to have the rules of engagement clarified with
22 respect to what's permissible errata and what's
23 permissible cross-examination with respect to that
24 errata. So I'd rather not -- the testimony itself
25 would go in; it's just the issue of the errata

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1 sheets.

2 JUDGE MOSS: Well, let me perhaps clarify
3 this issue by stating my point of view about this,
4 and I am open to alternative outcomes, but my
5 approach to corrections to testimony, particularly
6 when they come in late, and what I do is I include
7 both the original and the revised versions in my
8 notebooks. And if counsel wish to have questions
9 about why did this change, I would allow those
10 questions. It would be my inclination to do so.

11 I frankly am sometimes curious, and I don't
12 always ask, but I think it's a legitimate inquiry as
13 to why this changed. If the answer is simply, well,
14 it was a typographical error, then that's the answer
15 and you're stuck with it. But if the answer is, We
16 decided that we were going to stick it in your ribs
17 at the last minute, then you're entitled to know that
18 and have that on the record, too, I suppose.

19 So that's my attitude on it. Anybody want
20 to discuss it further? Does that resolve your
21 potential problem?

22 MR. VAN NOSTRAND: With that clarification,
23 Your Honor, I'm ready to proceed with examination on
24 those exhibits.

25 JUDGE MOSS: All right. I should make one

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1 more clarification point there, and that is, of
2 course, the testimony is as the witness presents it,
3 would be the corrected testimony, so the questions
4 are legitimate, but the testimony is what it is, so
5 -- and of course that's an individual witness' choice
6 to change testimony if they find that appropriate for
7 some reason. And finally on that point, within
8 reasonable limits.

9 Okay. So does that complete your potential
10 issues with the pre-filed record?

11 MR. VAN NOSTRAND: It does, Your Honor.

12 JUDGE MOSS: Okay. Anything from you, Mr.
13 Purdy, in the way of objections?

14 MR. PURDY: No, no, Judge.

15 JUDGE MOSS: All right. Ms. Davison, are
16 you lead?

17 MS. DAVISON: Yes.

18 JUDGE MOSS: Are you lead counsel?

19 MS. DAVISON: Yes, I am, Your Honor. And we
20 have no objections to the cross-examination exhibits
21 of PacifiCorp.

22 JUDGE MOSS: All right. And Mr. ffitich?

23 MR. FFITCH: Your Honor, we have no
24 objections to the cross-examination exhibits of the
25 other parties for Public Counsel.

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1 JUDGE MOSS: Okay. And Mr. Trotter?

2 MR. TROTTER: No objections, Your Honor.

3 JUDGE MOSS: All right. Then subject to the
4 few that we've identified, 64, 66 and 474, as to
5 which the Company may have objections, the exhibits
6 will be made part of the record as marked on the
7 exhibit list distributed this morning. And I have
8 provided that to the court reporter, so I'm not going
9 to put those numbers in the transcript in any way,
10 other than by adoption, which can be handled outside
11 of the hearing room.

12 (The following exhibits were marked in
13 conjunction with the hearing.)

14 E X H I B I T L I S T

15 BENCH EXHIBITS

16 1 Compilation of Written Comments Received from
17 Members of the Public

18 PACIFICORP WITNESSES

19 ANDREA L. KELLY

20 11 ALK-1T: Prefiled Direct Testimony re Case
21 Overview

22 12 ALK-2T: Prefiled Rebuttal Testimony
23 Summarizing PacifiCorp Position re PCAM in
24 Light of Response Testimony; Providing
25 Overview of Rebuttal Testimony

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1 CROSS-EXAMINATION EXHIBITS (ICNU)

2 13 Meeting Summary of MSP Standing Committee
3 (January 30, 2007)

4 14 Meeting Summary of MSP Standing Committee
5 (February 26, 2007)

6 15 PacifiCorp Response to ICNU DR No. 9.17

7 STEVEN R. EVANS

8 21 SRE-1T: Prefiled Rebuttal Testimony Disputing
9 Mr. Gorman on Tax Adjustment Issue

10 CROSS-EXAMINATION EXHIBITS (ICNU)

11 22 Excerpts of Order No. 05-1050 in Public
12 Utility Commission of Oregon Docket No. UE 170

13 WILLIAM R. GRIFFITH

14 31 WRG-1T: Prefiled Direct Testimony re Cost of
15 Service Study, Rate Speed, Rate Design, PCAM
16 Rate Design

17 32 WRG-2: Cost of Service by Rate Schedule -
18 State of Washington - 12 Months Ending March
19 2006

20 33 WRG-3: Cost of Service by Rate Schedule - All
21 Functions - State of Washington - 12 Months
22 Ending March 2006

23 34 WRG-4: Complete Functionalized Results of
24 Operations and Class Cost of Service Detail -
25 12 Months Ending March 2006

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1 35 WRG-5: Classification of Generation and
2 Transmission Costs
3 36 WRG-6: Proposed Revised Tariffs
4 37 WRG-7: Estimated Effect of Proposed Prices -
5 Base Case on Revenues from Electric Sales to
6 Ultimate Customers in Washington - 12 Months
7 Ending March 2006
8 38 WRG-8: Blocking Summary - Base Case
9 39 WRG-9: Monthly Billing Comparison - Base Case
10 40 WRG-10: Estimated Effect of Proposed Prices -
11 Expedited Case on Revenues from Electric Sales
12 to Ultimate Customers in Washington - 12
13 Months Ending March 2006
14 41 WRG-11: Blocking Summary - Expedited Case
15 42 WRG-12: Monthly Billing Comparison - Expedited
16 Case
17 43 WRG-13: Washington Total Average Rates
18 44 2004 With Base and Expedited Rates
19 45 WRG-14: Washington Total and Residential
20 Average Rates for 1990 and 2004
21 46 WRG-16: Washington Low Income Bill Assistance
22 Program Surcharge Analysis - Relative Size of
23 Proposed Program Compared to Present Program,
24 Avista and PSE
25 47 WRG-17: Washington Low Income Bill Assistance

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1 Program Surcharge Amounts in Proposed Program
2 Relative to Present Program, Avista and PSE
3 48 WRG-18: Original Tariff Sheet No. 95;
4 Estimated Test Year Effect of Proposed MEHC
5 Acquisition Commitment - A&G Credit on
6 Revenues from Electric Sales to Ultimate
7 Customers in Washington
8 CROSS-EXAMINATION EXHIBITS (Staff)
9 49 PacifiCorp Response to Staff Data Request No.
10 93
11 SAMUEL C. HADAWAY
12 51 SCH-1T: Prefiled Rebuttal Testimony Opposing
13 Cost of Capital Adjustments Proposed by ICNU
14 and Staff and Tax Proposal by ICNU
15 52 SCH-2: Witness Qualifications
16 53 SCH-3: Financial Ratio Analysis
17 54 SCH-4: Elgin Analysis
18 55 SCH-5: Comparable Company Adjustment Clauses
19 CROSS-EXAMINATION EXHIBITS (Staff)
20 56 Appendix A Commission Order 07 (Approving
21 and Adopting Settlement Stipulation) in
22 Docket UE-051090
23 57 Recommendations of Cost of Capital Witnesses
24 from Docket UE-050684
25 58 Exhibit SCH-4 from Docket UE-050684

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1 59 Standard and Poors Rating Dated December 21,
2 2006

3 CROSS-EXAMINATION EXHIBITS (ICNU)

4 460 PacifiCorp Response to ICNU DR No. 9.5

5 461 PacifiCorp Response to ICNU DR No. 9.6

6 462 PacifiCorp Response to ICNU DR No. 9.7

7 RICHARD P. REITEN

8 61 RPR-1T: Prefiled Rebuttal Testimony

9 Summarizing PacifiCorp's Reaction to the
10 Overall Recommendations of Staff, Public
11 Counsel, and ICNU; Disputing Mr. Bruehl's
12 Testimony for ICNU re Boise Cascade/Wallula

13 NOTE: The Following Portion of this Exhibit
14 are Struck, by Stipulation:

15 1) Page 2, Lines 7-17

16 2) Page 4, Line 5, Beginning with the sentence
17 "Indeed,...." Through Line 9.

18 3) Page 5, Line 7, Through Page 13, Line 6

19 CROSS-EXAMINATION EXHIBITS (ICNU)

20 62 Excerpt of Columbia River PUD 2005 Annual
21 Report

22 63 PacifiCorp 2006 Annual Reliability Report

23 64 Power Bumps April 1998 - Present

24 65 Five-Year Electric Service Reliability Study
25 of the Public Utility Commission of Oregon

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1 66 Meeting Agenda (October 11, 2006)
2 467 PacifiCorp Response to ICNU DR No. 8.3
3 468 PacifiCorp Response to ICNU DR No. 8.4
4 469 PacifiCorp Response to ICNU DR No. 9.10
5 470 PacifiCorp Response to ICNU DR No. 9.11
6 471 PacifiCorp Response to ICNU DR No. 9.13
7 472 PacifiCorp Response to ICNU DR No. 9.14
8 473 PacifiCorp Response to ICNU DR No. 9.15
9 474 Matthew Wright Letter to Mr. Banerjee
10 MARK R. TALLMAN
11 71 MRT-1T: Prefiled Direct Testimony re Prudence
12 of Resource Acquisitions
13 72C MRT-2C: Combine Hills 20-Year Power Purchase
14 Agreement
15 73C MRT-3C: Leaning Juniper 1 Wind Plant
16 Acquisition
17 74C MRT-4C: PacifiCorp New Grant PUD Contracts
18 75C MRT-5C: Grant PUD/PacifiCorp Conversion
19 Amendment #2
20 MARK T. WIDMER
21 81 MTW-1T: Prefiled Direct Testimony re Power
22 Costs and PCAM
23 82 MTW-2: Normalized Sources of Energy - 12
24 Months Ending March 2007
25 83 MTW-3: Normalized Sources of Peak Capacity -

0104

1 12 Months Ending March 2007

2 84 MTW-4: Actual Net Hydro (FERC Values) from

3 1960-2005

4 85 MTW-5: Historical Average Market Prices

5 January 1998 through June 2006

6 86 MTW-6: Forecast Average Market Prices July

7 2006 through December 2017

8 87 MTW-7: PCAM Example

9 88 MTW-8: Prefiled Rebuttal Testimony Discussing

10 Staff's Proposed Power Cost Adjustments;

11 Disputing Mr. Falkenberg re Interjuris-

12 dictional Cost Allocation and Power Costs;

13 Discussing PacifiCorp's Willingness to Accept

14 Certain Staff Adjustments to PCAM and to

15 Modify Proposed PCAM; Disputing ICNU and

16 Public Counsel Recommendations re PCAM

17 89 MTW-9: Monthly vs. Annual Derates

18 90 MTW-10: Average of Regulating Margin

19 91 MTW-11: Hydro Hedge Tariff PCAM Payments and

20 Credits

21 CROSS-EXAMINATION EXHIBITS (ICNU)

22 92 Net Power Cost Workbook - PacifiCorp Filed

23 Case GRID Run

24 93 PacifiCorp Response to ICNU DR No. 1.55

25 94 PacifiCorp Response to ICNU DR No. 1.6

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1 95 PacifiCorp Response to ICNU DR No. 2.39
2 96 Excerpt of PacifiCorp's Posthearing Opening
3 Brief in WUTC Docket No. UE-050684
4 497 PacifiCorp Response to ICNU DR No. 8.11
5 498 PacifiCorp Response to ICNU DR No. 8.14
6 499 PacifiCorp Response to ICNU DR No. 8.26
7 501 PacifiCorp Response to ICNU DR No. 8.31
8 507 PacifiCorp Response to ICNU DR No. 8.32
9 502 Excerpt of PacifiCorp Response to ICNU DR No.
10 8.34
11 503 PacifiCorp Response to ICNU DR No. 8.36
12 504 PacifiCorp Response to ICNU DR No. 8.38
13 505 PacifiCorp Response to ICNU DR No. 8.41
14 506 PacifiCorp Response to ICNU DR No. 8.47
15 CROSS-EXAMINATION EXHIBITS (Public Counsel)
16 97 PacifiCorp's Response to Public Counsel's
17 Data Request No. 3
18 98 PacifiCorp's Response to Public Counsel's
19 Data Request No. 4
20 99 PacifiCorp's Response to Public Counsel's
21 Data Request No. 6
22 100 PacifiCorp's Response to Public Counsel's
23 Data Request No. 7
24 101 PacifiCorp's Response to ICNU's Data Request
25 No. 1.49

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1 102 PacifiCorp's Response to ICNU's Data Request
2 No. 1.52
3 103 PacifiCorp's Response to ICNU's Data Request
4 No. 2.8
5 BRUCE N. WILLIAMS
6 111 BNW-1T: Prefiled Direct Testimony re Cost of
7 Money
8 112 BNW-2: Cost of Long-Term Debt Summary - August
9 31, 2006
10 113 BNW-3: Cost of Preferred Stock - August 31,
11 2006
12 114C BNW-4C: Confidential Presentation to
13 PacifiCorp - Lehman Brothers Pricing Analysis
14 115C BNW-5C: PacifiCorp New Issue Observations -
15 RBS Greenwich Capital
16 116 BNW-6T: Prefiled Rebuttal Testimony Opposing
17 Mr. Elgin re Cost of Capital Impacts
18 Associated with PCAM
19 117 BNW-7: Standard & Poor's Report re New
20 Business Profile Scores Assigned for US
21 Utility and Power Companies; Financial
22 Guidelines Revised
23 CROSS-EXAMINATION EXHIBITS (ICNU)
24 118 Standard & Poor's Article: "PacifiCorp's
25 \$600 Million Bonds are Rated 'A-'" (March

0107

1 14, 2007)

2 CROSS-EXAMINATION EXHIBITS (Staff)

3 119 SEC Form S-3 Dated February 13, 2007

4 ERICH D. WILSON

5 121 EDW-1T: Prefiled Rebuttal Testimony Opposing

6 Adjustments Proposed by Mr. Schooley and Ms.

7 Iverson to Reduce or Eliminate in Revenue

8 Requirements: Severance Payments, Compensation

9 Expense, Medical Insurance Cost Sharing,

10 Pension Expense

11 122 EDW-2: Performance Management Scorecards

12 123C EDW-3C: Severance Comparables

13 CROSS-EXAMINATION EXHIBITS (ICNU)

14 124 PacifiCorp Web Site Information on

15 Compensation & Benefits

16 125 PacifiCorp Response to ICNU DR No. 7.11

17 CROSS-EXAMINATION EXHIBITS (Staff)

18 126C PacifiCorp Response to Staff Data Request

19 No. 13 CONFIDENTIAL

20 PAUL M. WRIGLEY

21 131 PMW-1T: Prefiled Direct Testimony re

22 Interjurisdictional Cost Allocation and

23 Results of Operations (Revenue Requirement =

24 \$23.2 Million)

25 132 PMW-2: Summary of West Control Area

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1 Allocation Method

2 133 PMW-3: Summary of Results of Operations for

3 Period Ending March 31, 2006

4 134 PMW-4: Results of Operations for Period Ending

5 March 31, 2006

6 135 PMW-5: Lead Lag Study Fiscal Year 2003

7 136 PMW-6T: Prefiled Rebuttal Testimony Updating

8 Company Requested Revenue Requirement

9 Incorporating Adjustments and Updates to Which

10 PacifiCorp Agrees; Opposing Other Adjustments

11 Recommended in Response Testimony

12 137 PMW-7: Revised Revenue Requirement

13 138 PMW-8: Allocation of Centralia Gain

14 CROSS-EXAMINATION EXHIBITS (ICNU)

15 139C Confidential: PacifiCorp Response to ICNU DR

16 No. 1.84

17 140 Excerpt of PacifiCorp Response to ICNU DR No.

18 3.3

19 141 PacifiCorp Response to ICNU DR No. 3.11

20 142 PacifiCorp Response to ICNU DR No. 6.5

21 143 PacifiCorp Response to ICNU DR No. 7.8

22 144 PacifiCorp Response to ICNU DR No. 7.9

23 145 PacifiCorp Response to ICNU DR No. 7.10

24 WALTER W. BRUEHL

25 151 WWB-1T: Prefiled Direct Testimony re Assertion

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1 of Reliability Problems at Boise Cascade's
2 Facility in Wallula, WA
3 152 WWB-2: Witness Qualifications
4 153 WWB-3: Cascade Kraft Substation Outage and
5 Power Quality Study
6 154 WWB-4: Lightning Study
7 155 WWB-5: Excerpt of PacifiCorp - MidAmerican
8 Merger Conditions
9 156 WWB-6: Correspondence (Undated + Unsigned)
10 Paul Capell to Lester Whitehead
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12 161 RJF-1T: Prefiled Direct Testimony Opposing
13 Interjurisdictional Cost Allocation, Power
14 Costs, and Proposed PCAM
15 162 RJF-2: Witness Qualifications
16 163 RJF-3: Comparison of East and West PacifiCorp
17 Net Power Costs
18 164 RJF-4: Comparison of Grid versus Actual
19 PacifiCorp West Net Variable Power Costs
20 165 RJF-5: Calculation of Interconnection Benefits
21 166 RJF-6: Transmission Flows From UE-050684 Grid
22 Study - Wyoming to Jim Bridger
23 167 RJF-7: Impace of Including Wyoming East Load
24 and Resources in West Control Area
25 168 RJF-8: Filtered Water Adjustment

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1 169 RJF-9: Jim Bridger Monthly Outage Rates
2 170 RJF-10: Sensitivity of PacifiCorp Washington
3 Net Power Costs
4 171 RJF-11: Hydro Hedge PCAM Illustration of
5 Payments and Credits
6 172 RJF-12: Excerpts of PacifiCorp's Responses to
7 ICNU Data Request Nos. 1.6, 1.27, 1.39, 1.48
8 and 2.6
9 CROSS-EXAMINATION EXHIBITS (PacifiCorp)
10 173 Response to PacifiCorp Data Request No. 32
11 174 Response to PacifiCorp Data Request No. 36
12 175 Response to PacifiCorp Data Request No. 41
13 (Including Attachment)
14 176 Response to PacifiCorp Data Request No. 43
15 177 Testimony of Jim Lazar Before the WUTC
16 Docket No. UE-032065
17 MICHAEL P. GORMAN
18 181 MPG-1T: Prefiled Direct Testimony re .3%
19 Reduction to Return on Equity (to 9.9%) if
20 PCAM is Approved and Limitation on Recovery of
21 Income Tax Expense (\$3 Million Reduction)
22 182 MPG-2: Witness Qualifications
23 183 MPG-3: Utility Bond Spread
24 184 MPG-4: Income Tax Expense Adjustment
25 185 MPG-5: PacifiCorp's Response to ICNU Data

0111

1 Request No. 5.2

2 CROSS-EXAMINATION EXHIBITS (PacifiCorp)

3 186 Response to PacifiCorp Data Request No. 19

4 187 Response to PacifiCorp Data Request No. 20

5 188 Response to PacifiCorp Data Request No. 21

6 (Including Testimony and Exhibits Before the

7 Public Service Commission of Colorado, Docket

8 No. 06S-234EG)

9 189 Response to PacifiCorp Data Request No. 24

10 190 Response to PacifiCorp Data Request No. 27

11 191 Response to PacifiCorp Data Request No. 28

12 192 Commission Order Approving Settlement

13 Agreement with Modifications, Before the

14 Public Service Commission of Colorado, Docket

15 No. 06S-234EG (Dated November 20, 2006)

16 193 Testimony Before the WUTC Docket No.

17 UE-050864

18 194 Testimony Before the Public Service Commission

19 of Missouri, Case No. ER-2007-0004

20 195 Testimony Before the OPUC in Docket No. UE 180

21 196 Excerpts of OPUC Order in Docket No. UE 180

22 KATHRYN E. IVERSON

23 201C KEI-1CT: Prefiled Direct Testimony re \$5.8

24 Million Revenue Requirement Reduction

25 (Transition Costs from Merger, Pension and

0112

1 Medical Benefits, Other Administrative and
2 General Costs)
3 202 KEI-2: Witness Qualifications
4 203 KEI-3: PacifiCorp MEHC Transition Savings
5 204 KEI-4: Responses to ICNU Data Request Nos.
6 3.2 and 3.4
7 205C KEI-5C: Confidential Response to ICNU Data
8 Request No. 6.4
9 206 KEI-6: Response to ICNU Data Request No. 3.14
10 207 KEI-7: OPUC Staff Proposed Conditions
11 Regarding PacifiCorp Transition Cost Request
12 (UM 1263)
13 208 KEI-8: Response to ICNU Data Request 6.2
14 209 KEI-9: PacifiCorp Pension Expense Adjustment
15 210 KEI-10: Response to ICNU Data Request 3.6
16 211 KEI-11: PacifiCorp Incentive Compensation
17 Adjustment
18 212 KEI-12: Response to ICNU Data Request 6.3
19 213 KEI-13: PacifiCorp Medical Benefits Adjustment
20 CROSS-EXAMINATION EXHIBITS (PacifiCorp)
21 214 Response to PacifiCorp Data Request No. 2
22 215 Response to PacifiCorp Data Request No. 4
23 216 Response to PacifiCorp Data Request No. 7
24 217 Response to PacifiCorp Data Request No. 8
25 218 Response to PacifiCorp Data Request No. 9

0113

1 219 Response to PacifiCorp Data Request No. 10
2 220 Response to PacifiCorp Data Request No. 11
3 (Including Attachment)
4 221 Response to PacifiCorp Data Request No. 12
5 222 Response to PacifiCorp Data Request No. 13
6 223 Response to PacifiCorp Data Request No. 14
7 224 Response to PacifiCorp Data Request No. 15
8 225 Response to PacifiCorp Data Request No. 16
9 (Including Attachment)
10 CHARLES M. EBERT
11 231 CME-1T: Prefiled Direct Testimony re Impact of
12 Recent Rate Increases on Low Income Bill
13 Assistance Program
14 232 CME-2: Changes in Washington's Poverty
15 Population Since 1990
16 233 CME-3: S1701: Poverty Status in the Past 12
17 Months - 2005 American Community Survey -
18 Washington
19 STEVEN G. JOHNSON
20 241 SGJ-1T: Prefiled Direct Testimony Opposing
21 PCAM
22 242 SGJ-2: Hydro Production as Percentage of
23 Annual MWh Load
24 243 SGJ-3: Grid Output from Exhibit RJF-8T -
25 Ranked in Descending MWhs

0114

1 CROSS-EXAMINATION EXHIBITS (PacifiCorp)
2 244 Response to PacifiCorp Data Request No. 2
3 245 Response to PacifiCorp Data Request No. 3
4 246 Response to PacifiCorp Data Request No. 4
5 247 Response to PacifiCorp Data Request No. 5
6 248 Response to PacifiCorp Data Request No. 6
7 249 Response to PacifiCorp Data Request No. 7
8 250 Response to PacifiCorp Data Request No. 8
9 251 Response to PacifiCorp Data Request No. 9
10 252 Response to PacifiCorp Data Request No. 10
11 ALAN P. BUCKLEY
12 261 APB-1T: Prefiled Direct Testimony re
13 Interjurisdictional Cost Allocation; Power
14 Cost Base Level, PCAM, and Prudence of Certain
15 Resources
16 262 APB-2: PacifiCorp Response to WUTC Staff Data
17 Request No. 88 (Excerpt)
18 263 APB-3: Summary of Net Power Supply Expense
19 Adjustments
20 264 APB-4: Calculation of Staff Water Year
21 Adjustment
22 265 APB-5T: Prefiled Cross Answering Testimony
23 Disputing Public Counsel Witness Mr. Johnson
24 re PCAM "threshold" for Variability in Power
25 Costs; Answering Mr. Falkenberg's (ICNU and

0115

1 Public Counsel) Apparent Opposition to WCA
2 Allocation Method; Opposing ICNU and PC on
3 Short-Term Balancing Contracts and SMUD
4 Imputed Costs; Answering ICNU Opposition to
5 PCAM

6 CROSS-EXAMINATION EXHIBITS (ICNU)

7 266 Staff Response to ICNU DR No. 2.1
8 267 Staff Response to ICNU DR No. 2.2
9 268 Staff Response to ICNU DR No. 2.3
10 269 Staff Response to ICNU DR No. 2.5
11 270 Staff Response to ICNU DR No. 2.6
12 271 Staff Response to ICNU DR No. 2.8
13 272 Staff Response to ICNU DR No. 2.10
14 273 Staff Response to ICNU DR No. 2.15
15 274 Staff Response to ICNU DR No. 2.16
16 275 Staff Response to ICNU DR No. 2.17
17 276 Staff Response to ICNU DR No. 2.18
18 277 Staff Response to ICNU DR No. 2.19
19 278 Staff Response to ICNU DR No. 2.21
20 279 Staff Response to ICNU DR No. 2.22
21 280 Staff Response to ICNU DR No. 2.24
22 281 Staff Response to ICNU DR No. 2.25
23 282 Staff Response to ICNU DR No. 2.27
24 283 Staff Response to ICNU DR No. 2.28
25 284 Staff Response to ICNU DR No. 2.29

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1 285 Excerpts of Alan P. Buckley Direct
2 Testimony in WUTC Docket No. UE-032065
3 286 Excerpts of Alan P. Buckley Direct
4 KENNETH L. ELGIN
5 291 KLE-1T: Prefiled Direct Testimony re Impact
6 of PCAM on Cost of Capital (Proposed Reduction
7 in Equity Share From 46% to 42%--ROR=7.90% vs.
8 8.05% Proposed by PacifiCorp)
9 292 KLE-2: Witness Experience List in Presenting
10 Testimony
11 293 KLE-3: Interest Coverage Analysis
12 294 KLE-4T: Prefiled Cross-Answering Testimony
13 Responding to ICNU's (Mr. Gorman's) Adjustment
14 to Cost of Capital to Account for a "Hydro
15 Hedge" Type of PCAM
16 CROSS-EXAMINATION EXHIBITS (PacifiCorp)
17 295 Response to PacifiCorp Data Request No. 2
18 (Including Attachment)
19 296 Response to PacifiCorp Data Request No. 3
20 297 Response to PacifiCorp Data Request No. 8
21 (Including Attachment)
22 298 Response to PacifiCorp Data Request No. 10
23 299 Response to PacifiCorp Data Request No. 11
24 300 Response to PacifiCorp Data Request No. 12
25 301 Response to PacifiCorp Data Request No. 15

0117

1 302 Response to PacifiCorp Data Request No. 16
2 303 Testimony Before the WUTC Docket No.
3 UE-020417
4 304 WUTC Third Supplemental Order in Docket Nos.
5 UE-901183-T and UE-901184-P
6 305 WUTC Fourth Supplemental Order: Approving and
7 Adopting Settlement Stipulation Concerning the
8 Prudence and Recoverability of Certain
9 Deferred Power Costs, Docket No. UE-011514 and
10 Fourth Supplemental Order: Rejecting Tariff
11 Filing; Approving and Adopting Settlement
12 Stipulation Concerning Interim Rates;
13 Authorizing and Requiring Compliance Filing,
14 Docket No. UE-011595
15 306 WUTC Fifth Supplemental Order: Rejecting
16 Tariff Filing; Approving and Adopting
17 Settlement Stipulation; Authorizing and
18 Requiring Compliance Filing, Docket No.
19 UE-011595
20 DANNY P. KERMODE
21 311 DPK-1T: Prefiled Direct Testimony Contesting
22 Company Proposed Adjustment 7.6, IRS
23 Settlement Amortization
24 312 DPK-2: Company Amortization Amount Adjusted
25 for Removal of Normalized Items

0118

1 313 DPK-3: Schedule for Calculation of Imputed
2 Additional Annual Revenue

3 314 DPK-4T: Prefiled Cross-Answering Testimony
4 Opposing Mr. Gorman's Proposal for ICNU to
5 Adjust Income Taxes

6 THOMAS E. SCHOOLEY

7 321 TES-1T: Prefiled Direct Testimony re Staff
8 Analysis of Results of Operations (Revenue
9 Requirement Increase of \$12,251,343 w/PCAM,
10 or \$15,964,573 w/o PCAM

11 322 TES-2: Revenue Requirements Presentation

12 323 TES-3: Investor Supplied Working Capital

13 324 TES-4: Lead-Lag Analysis

14 325 TES-5: Adjustment 8.13, MEHC Transition
15 Savings

16 326C TES-6C: Severance Expense Detail

17 327 TES-7: PacifiCorp Petition to Defer MEHC
18 Transition Costs, Docket UE-060817

19 328 TES-8T: Prefiled Cross-Answering Testimony
20 Contesting All ICNU Adjustments to Revenue
21 Requirement Proposed via Ms. Iverson;
22 Correcting One Adjustment

23 CROSS-EXAMINATION EXHIBITS (PacifiCorp)

24 329 Response to PacifiCorp Data Request No. 22

25 330 Response to PacifiCorp Data Request No. 23

0119

1 331 Response to PacifiCorp Data Request No. 24

2 332 Response to PacifiCorp Data Request No. 27

3 333 Response to PacifiCorp Data Request No. 28

4 334 Response to PacifiCorp Data Request No. 29

5 335 Response to PacifiCorp Data Request No. 32

6 336 Response to PacifiCorp Data Request No. 33

7 (Conclusion of Exhibit Identification.)

8 JUDGE MOSS: Now, I will point out a couple
9 of things. Due to last minute changes and the speed
10 at which I made them, there are a couple of little
11 oddities. On page six, you may have noted that I --
12 I think on your copies will be handwritten in the
13 number 507 out of sequence, between 501 and 502,
14 simply because I neglected to give one exhibit a
15 number and wasn't sharp enough this morning to number
16 it 500, as I probably should have. But that's 507.

17 And just to explain the odd sequencing, of
18 course, as you know, I prepare these several days in
19 advance and I do leave numbers, but sometimes they're
20 not enough. So this time I struck about the
21 convention of going into a new series, a 400 series
22 and ultimately over into the 500 series. So that's
23 why those numbers are out of sequence, but I tried to
24 make it as easy as possible for you and the witnesses
25 to follow.

0120

1 All right. And Mr. Van Nostrand, as to any
2 of those objections you may wish to make, we'll take
3 them up when the witness is on the stand so we'll
4 have the appropriate context in which to consider
5 them.

6 MR. VAN NOSTRAND: Thank you, Your Honor.

7 JUDGE MOSS: All right. Now, with that out
8 of the way, I want to turn to our cross-examination
9 estimates, and I want to confirm first, you'll see a
10 little footnote there that I adopted from ICNU, that
11 ICNU would waive cross on certain witnesses, assuming
12 the exhibits are stipulated in. That appears to be
13 the case with respect to Ms. Kelly, so confirm that
14 you will not have any cross for Ms. Kelly. And let's
15 see. Those exhibits you identified were Mr. Reiten,
16 weren't they?

17 MR. VAN NOSTRAND: Yes, Your Honor.

18 JUDGE MOSS: Did I pronounce that correctly?

19 MR. VAN NOSTRAND: Yes.

20 JUDGE MOSS: Thank you. All right. So Ms.
21 Davison, you would also waive as to Williams?

22 MS. DAVISON: Yes, Your Honor.

23 JUDGE MOSS: And Hadaway?

24 MS. DAVISON: Yes.

25 JUDGE MOSS: And Wilson?

0121

1 MS. DAVISON: Yes.

2 JUDGE MOSS: All right. Well, we just saved
3 an hour, making this 15 minutes well worthwhile. All
4 right. Did anybody else indicate cross for a witness
5 that they have since thought better of their plans to
6 cross-examine the witness? If I can strike anybody
7 else at this time, I will.

8 I noticed, oh, indeed, Mr. Griffith, Staff,
9 you said two minutes or stipulate cross exhibits, so
10 I guess you'll be striking that cross?

11 MR. TROTTER: Yes.

12 JUDGE MOSS: Or potential cross, okay.
13 Anything else that I should know about?

14 MR. VAN NOSTRAND: Company is going to waive
15 cross on Mr. Gorman, Your Honor.

16 JUDGE MOSS: Okay. Waiving cross on Mr.
17 Gorman.

18 MR. VAN NOSTRAND: Another half hour, sir.

19 JUDGE MOSS: You'll all be amply rewarded.

20 MR. PURDY: Your Honor, I think I put down
21 30 minutes for Mr. Griffith, and I suspect that it's
22 going to be a bit less than that, 15 to 20, if it's
23 of any value to you.

24 JUDGE MOSS: It is. Anything else I need to
25 know or could learn this morning? The reason this is

0122

1 important to me is we are operating under certain
2 constraints this week. Today we will have a full
3 hearing day. Tomorrow is an open meeting day at the
4 Commission, so we were only planning to have a half a
5 day. Thursday, we were -- we plan to have a full
6 day, but for some late-breaking developments that
7 prove the point we all have bosses and at least one
8 of our Commissioners is going to be otherwise
9 occupied on a portion of Thursday afternoon, so we're
10 going to try to avoid Thursday afternoon.

11 Adding all this up, I think we're down now
12 to a little less than eight hours of
13 cross-examination. A typical hearing day is six, so
14 we should be able to finish this on Wednesday, if
15 everyone will ask their questions efficiently and the
16 witnesses do not pontificate, which I would be
17 inclined to stop anyway, so --

18 MR. VAN NOSTRAND: Are we starting in the
19 afternoon on Wednesday, Your Honor?

20 JUDGE MOSS: Pardon?

21 MR. VAN NOSTRAND: Are we starting in the
22 afternoon on Wednesday or the morning?

23 JUDGE MOSS: Yeah, the afternoon, I think.
24 Oh, we'll talk about this again at the end of today,
25 we'll see where we are.

0123

1 Now, the other issue on this point is the
2 question of Thursday appearances. ICNU, I think, had
3 asked to have Thursday appearances for its witnesses.
4 Now, Mr. Gorman we are no longer going to need, but
5 we do have some cross indicated for -- is it Bruehl;
6 is that correct?

7 MS. DAVISON: Bruehl.

8 JUDGE MOSS: Bruehl. And Falkenberg, we
9 have some indicated. And you asked for Ms. Iverson
10 to appear by phone. Does the Company still have 30
11 minutes for Ms. Iverson?

12 MR. VAN NOSTRAND: I would say so, Your
13 Honor.

14 JUDGE MOSS: Okay. That's a bit long for a
15 phone examination. Is there a problem with the
16 witness' availability?

17 MS. DAVISON: No, she was available; it was
18 just that the Company offered that and, given the
19 spring break travel challenges, we accepted that.
20 But, you know, she's coming from Phoenix. If you
21 would like her to --

22 JUDGE MOSS: I've raised this with one of
23 the three Commissioners. I'll talk to the other two
24 before I come back in this morning, see if they'll
25 agree to that.

0124

1 MR. VAN NOSTRAND: I can revisit my
2 cross-examination estimate, see if I can pare it down
3 a bit. Is 20 minutes okay by phone?

4 JUDGE MOSS: It's all right with me. I
5 imagine we can do it that way.

6 MR. VAN NOSTRAND: I wanted to err on the
7 higher side, so 30 would be --

8 JUDGE MOSS: I appreciate you erring on the
9 high side. I always appreciate that.

10 MS. DAVISON: And Your Honor, Ms. Iverson,
11 if she appears by phone, could be available any time
12 this week.

13 JUDGE MOSS: Good.

14 MS. DAVISON: As opposed to if we put her on
15 a plane, then that is clearly Thursday morning.

16 JUDGE MOSS: Phone it is. How about your
17 other two witnesses? Is Thursday a must for them?

18 MS. DAVISON: For Mr. Falkenberg, he's
19 coming from Atlanta, and yes. Well, with the
20 correction that he will actually be here Wednesday
21 afternoon, probably about 3:00 p.m.

22 JUDGE MOSS: That would work.

23 MS. DAVISON: So that's an option.

24 JUDGE MOSS: All right.

25 MS. DAVISON: With Mr. Bruehl -- do you know

0125

1 what time he's coming in? He's also coming in around
2 three or four. He's flying in from Boise.

3 JUDGE MOSS: Okay. Well, we'll see how
4 things go. I think, as I mentioned, I think we
5 should be able to finish on Wednesday, so if we can
6 get them in here late in the afternoon on Wednesday,
7 that would probably be good.

8 Other witnesses. Let's see. Mr. Johnson
9 had some kind of problem. Thursday after eleven. Is
10 that still the only time he can appear?

11 MR. FFITCH: No, Your Honor. I guess my
12 communication wasn't real clear. He would be
13 available before -- he would be available on
14 Wednesday.

15 JUDGE MOSS: Oh, okay.

16 MR. FFITCH: It's just that on Thursday, it
17 would be after eleven.

18 JUDGE MOSS: Okay, fine. Now, then, is
19 there any other witness who is only available on
20 Thursday for anybody?

21 MR. VAN NOSTRAND: That's Company witness
22 Williams, Your Honor, but we're still working on that
23 issue. We may be able to resolve it.

24 JUDGE MOSS: And we've only got now ten
25 minutes of cross indicated, so we might be able to

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1 make an alternative arrangement there.

2 MR. TROTTER: We'd be happy to talk to the
3 Company about that.

4 JUDGE MOSS: Okay, great. All right. Well,
5 very good.

6 MR. TROTTER: Your Honor, just a quick one.

7 JUDGE MOSS: Yes.

8 MR. TROTTER: There's no questions on the
9 chart for Ebert or Kermode or Tallman.

10 JUDGE MOSS: True.

11 MR. TROTTER: Do the Commissioners have any?
12 Can I tell Mr. Kermode he will likely not be
13 testifying?

14 JUDGE MOSS: Ask me that question when I
15 come back from talking to the Commissioners.

16 MR. TROTTER: Very good.

17 JUDGE MOSS: Who was the third one, Ebert?

18 MR. TROTTER: Tallman, and then I guess
19 Gorman has also been zeroed out.

20 MR. PURDY: And apparently Ebert now, as
21 well.

22 MR. TROTTER: Yeah, I think I said that.

23 JUDGE MOSS: All right. Well, on those four
24 witnesses, then, while we have stipulated cross
25 exhibits in, why don't we see about stipulating in

0127

1 their pre-filed. Any objections to any of the
2 pre-filed for those four witnesses, anybody?

3 MR. TROTTER: No.

4 MR. VAN NOSTRAND: No.

5 MR. FFITCH: No.

6 JUDGE MOSS: All right. Then we're going to
7 treat those -- let's see. It's Mr. Tallman, all of
8 the exhibits listed for Mr. Tallman, beginning with
9 Exhibit 71 through 75-C, are admitted as marked and
10 identified on the exhibit list.

11 For Mr. Gorman, the exhibits pre-marked 181
12 through 185 are admitted by stipulation.

13 For Mr. Ebert, the exhibits pre-marked 231
14 through 233 are admitted by stipulation as marked and
15 identified.

16 And for Mr. Kermodé, the exhibits pre-marked
17 311 through 314 are admitted by stipulation.

18 And I will confirm the cross-examination
19 question and get back to you in a minute on that.
20 All right.

21 MR. VAN NOSTRAND: Your Honor, one more
22 update on cross-examination. The Company will be
23 waiving cross-examination on Tom Schooley.

24 JUDGE MOSS: Ah.

25 MR. VAN NOSTRAND: Another 15 minutes.

0128

1 JUDGE MOSS: All right. And we can
2 stipulate in his direct, as well, I assume?

3 MR. VAN NOSTRAND: Yes.

4 JUDGE MOSS: All right. We will treat
5 Exhibits 321 through 328 for Mr. Schooley admitted by
6 stipulation.

7 I think I'll just sit here for a minute and
8 see -- all right. Are there any other preliminary
9 matters that we can usefully take up or shall I go
10 get the Commissioners and we'll get started? All
11 right. We'll be in recess for a few minutes, so if
12 somebody wants to stretch their legs, we'll probably
13 be five minutes or so.

14 (Recess taken.)

15 JUDGE MOSS: Let's be back on the record.
16 After our brief recess, the Commissioners have now
17 joined us at the bench, so we're ready to begin with
18 our first witness.

19 Mr. Reiten, if you would rise and raise your
20 right hand, please?

21 Whereupon,

22 RICHARD P. REITEN,
23 having been first duly sworn by Judge Moss, was
24 called as a witness herein and was examined and
25 testified as follows:

0129

1 JUDGE MOSS: Thank you. Please be seated.
2 Counselor, proceed.

3 MR. VAN NOSTRAND: Thank you, Your Honor.

4

5 D I R E C T E X A M I N A T I O N

6 BY MR. VAN NOSTRAND:

7 Q. Mr. Reiten, could you state your name and
8 spell it for the record, please?

9 A. Sure. Richard P. Reiten. Are we on?

10 Q. Yeah.

11 A. There we are. Richard P. Reiten,
12 R-e-i-t-e-n. I generally go by Pat, which is my
13 middle name.

14 Q. And what's your position with PacifiCorp?

15 A. Since September 15th of this past year, I've
16 been the President of Pacific Power.

17 Q. And did you have occasion in this case to
18 prepare pre-filed rebuttal testimony, which has been
19 filed in this docket?

20 A. I did.

21 Q. Do you recognize that as Exhibit 61?

22 A. I do.

23 Q. Do you have any additions or corrections to
24 make to that document?

25 A. I do not.

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1 Q. If I asked you the questions set forth in
2 that document, would your answers be the same today?

3 A. Yes, they would.

4 MR. VAN NOSTRAND: Your Honor, I'd move the
5 admission of Exhibit 61, and Mr. Reiten is available
6 for cross-examination.

7 JUDGE MOSS: Hearing no objection, it will
8 be admitted as marked. And we've previously admitted
9 all but three of the cross exhibits as to which there
10 may be objections, so if we get to those in the
11 questioning, please allow time for Counsel to
12 interpose his objection.

13 All right. We discussed the order in which
14 cross would proceed, and I believe we agreed that you
15 would go first, Mr. Trotter. Do you have questions
16 for this witness?

17 MR. TROTTER: I do. Thank you.

18

19 C R O S S - E X A M I N A T I O N

20 BY MR. TROTTER:

21 Q. Good morning, Mr. Reiten.

22 A. Good morning.

23 Q. Could you turn to your rebuttal exhibit,
24 61-T, page 11? Beginning on line 15 and continuing
25 to the next page, you set forth a commitment,

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1 Washington 25, from the MEHC acquisition of
2 PacifiCorp docket; is that right?

3 A. That is correct.

4 Q. And you note, line 21, there was to be an
5 engineering and design study completed by PacifiCorp
6 and provided by -- provided to Boise Cascade on or
7 before March 21st of this year?

8 A. That is correct.

9 Q. And did that happen?

10 A. Yes, that was provided both to the
11 Commission Staff and to Mr. Miles Hewitt, Vice
12 President of Boise Cascade, on March 19th.

13 Q. Are there any other significant updates
14 since you filed your testimony regarding the issues
15 that ICNU has raised that you're responding to?

16 MS. DAVISON: Your Honor, I would object.
17 This line of questioning appears to be friendly
18 cross.

19 MR. TROTTER: I'm just trying to get,
20 honestly, just a status report, Your Honor. It's not
21 friendly nor unfriendly. It's neutral.

22 MS. DAVISON: Well, Your Honor, I don't
23 believe that we have a procedure in this hearing to
24 allow a witness to update their testimony from the
25 point in which it was filed, and that appears to be

0132

1 the question that Mr. Trotter is asking.

2 JUDGE MOSS: Is that your last question, Mr.
3 Trotter?

4 MR. TROTTER: Yeah. On that line, yes.

5 JUDGE MOSS: All right. Then we'll allow
6 it. Go ahead.

7 THE WITNESS: The draft study was provided
8 back in November the past year. We did provide the
9 final study, as mentioned in my previous answer. We
10 have met with and discussed the study with the
11 Company. A follow-up meeting to receive the
12 Company's input on the findings of the study was
13 scheduled for tomorrow. That has been postponed at
14 the Company's request. I expect it will be
15 rescheduled shortly.

16 Q. And likewise, has there been any change in
17 your recommendation, which is set forth -- on
18 Pacific's recommendation, which is set forth on page
19 13 of your testimony?

20 A. No.

21 MR. TROTTER: That's all I have. Thank you.

22 JUDGE MOSS: All right. Mr. Purdy, anything
23 for this witness?

24 MR. PURDY: I have nothing. Thank you, Your
25 Honor.

0133

1 JUDGE MOSS: All right. Ms. Davison.

2 MS. DAVISON: Thank you, Your Honor.

3

4 C R O S S - E X A M I N A T I O N

5 BY MS. DAVISON:

6 Q. Good morning, Mr. Reiten.

7 A. Good morning.

8 Q. I believe you stated earlier that you began
9 your position at PacifiCorp in September of 2006; is
10 that correct?

11 A. That's correct.

12 Q. I'd like to ask you some questions regarding
13 Boise Cascade's complaint about the quality of their
14 electric service from PacifiCorp. Are you aware that
15 this issue of Boise's complaint about the quality of
16 their electric service has been going on for many,
17 many years now?

18 A. Yes. Actually, while I am not directly --
19 obviously directly and haven't been directly
20 involved, I am aware that this has gone on for quite
21 some time. Clearly the Company and the -- and Boise
22 Cascade felt it necessary to address those issues
23 jointly, which is why they put together jointly a
24 task force that resulted in an outage and power
25 quality study, which serves as the basis for both the

0134

1 commitments we've made, which have been codified
2 within the merger commitments, and which we have
3 described in the various ways in my testimony.

4 Q. Are you aware that since 2004, there have
5 been over 11 meetings between PacifiCorp and Boise
6 Cascade to attempt to resolve the service quality
7 issues?

8 A. I am aware that there have been quite a
9 number of meetings, a couple of which I've been
10 involved in since my time, that have discussed this.
11 I don't know the specific number of them.

12 Q. Could you turn to what has been pre-marked
13 as Exhibit 474, please?

14 A. Could you describe that for me?

15 Q. Yes, that is a letter dated August 18th,
16 2004, from PacifiCorp to Boise Cascade.

17 MR. VAN NOSTRAND: Your Honor, this is a
18 cross-examination exhibit to which the Company has an
19 objection, and we'd object to further lines of
20 questioning until we have the issue resolved.

21 JUDGE MOSS: All right. What's your
22 objection?

23 MR. VAN NOSTRAND: We have several. First
24 of all, this is a letter written in August 2004.
25 It's been around for two and a half years. There's

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1 no reason it couldn't have been provided as a
2 cross-examination exhibit when they were due to be
3 filed. That's the minor procedural argument.

4 The more important argument is relevance.
5 In our view, this document doesn't relate in any way
6 whatsoever to the issues raised in ICNU's testimony,
7 which seems to be PacifiCorp's compliance with the
8 MEHC transaction commitment in Docket UE-051090.

9 This letter, which -- Exhibit 474, was
10 written by an officer from PacifiCorp's previous
11 owner, Scottish Power. I mean, it was written one
12 and a half years before the commitment was entered
13 into with MEHC as a transaction commitment. It's not
14 relevant to the actions PacifiCorp has taken since
15 that transaction commitment was made to fulfill the
16 MEHC transaction commitment.

17 The third broader issue is whether this
18 whole issue even belongs in this proceeding.
19 Frankly, it's become a sideshow issue. The MEHC
20 Transaction Commitment 25 has a process by its very
21 terms for resolving issues related to compliance.
22 That process calls for a report to be filed with
23 Boise Cascade and with the Commission. As Mr. Reiten
24 has testified, that report was filed last week. That
25 process states that if a dispute arises between the

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1 parties, either party may apply to the Commission for
2 an order resolving a dispute.

3 The issues raised in ICNU's Witness Bruehl's
4 testimony are premature, since at the time the
5 testimony was written, the process contemplated by
6 Washington Commitment 25 had not even run its course,
7 and two, there was a separate process provided for
8 addressing issues within Commitment 25 related to
9 whether or not PacifiCorp has fulfilled that
10 commitment.

11 This has frankly become a sideshow issue.
12 This is not a rate case issue. There are no
13 expenditures associated with Boise Cascade that are
14 being sought to recover in this case. If Boise
15 Cascade feels the Company has not complied with the
16 commitment, then the process identified in Washington
17 Commitment 25 should be followed, or there's a
18 separate complaint proceeding for the claimed
19 violation of the commitment.

20 And frankly, we had considered moving to
21 strike the testimony of Mr. Bruehl on these grounds,
22 given the lack of relevance of this testimony to any
23 matter at issue in this proceeding. At the same
24 time, it doesn't seem like a particularly good course
25 of action for the Company to move to strike the

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1 testimony of its largest customer on legitimate
2 service quality issues.

3 However, those legitimate service quality
4 issues have been embodied and were addressed as part
5 of Washington Merger Commitment 25 from the MEHC
6 transaction, and that commitment, by its very terms,
7 has a process for addressing that. And this Exhibit
8 474 is a continuation and a compounding of this
9 issue, which has taken on a life of its own.

10 So we feel this exhibit has no relevance to
11 the proceeding, and in fact, it's an exhibit which
12 relates to an issue which, in and of itself, is
13 irrelevant.

14 So we would object to the admission of 474
15 and object to further questioning of Mr. Reiten on
16 Exhibit 474.

17 JUDGE MOSS: All right. Thank you. Ms.
18 Davison, let's focus first on Exhibit 474, and then
19 I'll let you speak to the broader objection to the
20 relevance of this entire line, the response to which
21 I'm most interested to hear myself. So let's go with
22 474 first.

23 MS. DAVISON: Thank you, Your Honor. 474
24 really goes to the heart of the issue here, which is
25 that in 2004, Boise experienced an outage as a result

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1 of a lightning strike and a senior vice president of
2 PacifiCorp promised to study and resolve the issue in
3 2004, and specifically said that we will do
4 everything we can to prevent the loss of power by
5 using protective devices.

6 And that's really the issue that Boise has,
7 is that we have these continuing problems of
8 lightning strikes and there are protective devices
9 that can be placed on the lines. And this letter
10 demonstrates that, in 2004, Boise raised the issue,
11 was assured that this issue would be addressed, and
12 here we are in 2007, and essentially Mr. Reiten's
13 testimony demonstrates that we are in exactly the
14 same place as we were in 2004, which is that we still
15 have this ongoing outage issue.

16 There's a whole variety of problems, but the
17 lightning strikes are certainly one of the big
18 problems, in that the resolution of it in 2007 is
19 really no different than it was in 2004. So the
20 purpose of this document is to simply show that this
21 has been going on for a long time and that Boise's
22 been trying, for many, many years, to get this issue
23 resolved without success.

24 JUDGE MOSS: All right. Well, I think I've
25 heard enough on that. It seems to me that the points

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1 of the objection, though, as to this specific exhibit
2 concerning the fact that the dispute, to the extent
3 there is one that belongs in this case, does concern
4 the merger commitment and its satisfaction in this
5 connection.

6 As Counsel points out, this letter was
7 something generated under the prior ownership of the
8 Company, so I do have to question its relevance on
9 that basis, as well. Moreover, I simply do not think
10 we need this piece of evidence to make the point that
11 this is something that's been going on for a long
12 time. There's a lot of pre-filed on that, much of
13 which is not objected to. So I'm going to sustain
14 the objection to 474.

15 I would like to hear further from you,
16 though, concerning exactly how this issue does fit
17 into this case, this whole issue of Boise Cascade's
18 dissatisfaction with the reliability of service.

19 What relief are you seeking in this case
20 with respect to that? I'm not clear on that.

21 MS. DAVISON: The relief that we are seeking
22 is certain items that have been identified that need
23 to occur in order for Boise to receive reliable
24 electric service. Boise spends over \$17 million a
25 year on its electric bill, and the solutions that

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1 have been proposed are just a pittance of what they
2 pay for electric service, and so Boise has proposed
3 several areas of solution for this, you know, very
4 troubling, ongoing reliability issue.

5 The one point I would make is that the
6 testimony of Mr. Bruehl goes well beyond the merger
7 commitment. It is a broader issue and certainly one
8 that, you know, if we don't raise it here, we're not
9 sure which forum is appropriate to raise it. It goes
10 -- because, as I said, it goes beyond the merger
11 commitment. It is an ongoing service quality issue,
12 reliability issue, safety issue, environmental issue
13 that has been discussed for many, many years without
14 a solution from the Company.

15 JUDGE MOSS: Okay. I'm going to take a
16 moment to confer with the Commissioners on this.

17 (Discussion off the record.)

18 JUDGE MOSS: All right. Ms. Davison, I
19 don't think there's -- there's no real dispute, is
20 there, that as far as the merger commitment is
21 concerned, that there is a dispute resolution
22 mechanism provided?

23 MS. DAVISON: That's correct, Your Honor.

24 JUDGE MOSS: And it's not this rate case?

25 MS. DAVISON: That's correct.

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1 JUDGE MOSS: All right. Now, you have said
2 that there is something in this testimony that goes
3 beyond -- or something in your -- the point you wish
4 to make that is beyond that.

5 To the extent there is -- because there is a
6 separate dispute resolution mechanism as to that
7 commitment, we simply won't pursue it. If you have
8 questions that are on subject matter that is outside
9 of that, then we can entertain that and see if you
10 can tell us, again, what is it -- what issue does it
11 relate to that we can do something about in the
12 context of this case.

13 I didn't hear the word economic impact in
14 terms of the rates. And what we've got before us
15 here is a tariff filing, and the question before us
16 is are the rates that were filed in those tariff
17 sheets fair, just, reasonable and sufficient, and
18 that is the issue in this case. There are
19 alternative forums and means by which you can pursue
20 other types of complaints, as you well know, either
21 filing a complaint with this Commission or following
22 whatever dispute resolution processes are in place as
23 a result of the merger commitment and what have you.

24 So again, I invite you to explain, if you
25 will, elaborate a little bit more on what it is this

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1 testimony relates to in this case, the matter before
2 us.

3 MS. DAVISON: Well, I guess, from our
4 perspective, we see the rate case as going --
5 involving issues beyond just the actual cost of our
6 service. I mean, obviously that is a very important
7 issue and that's the key, to make sure that the rates
8 are fair, just and reasonable, but the point of Boise
9 Cascade is they believe that they are not receiving
10 reliable electric service.

11 And I think the message that you are giving
12 me loud and clearly is that you would like for me to
13 pursue this in a different forum. I'm happy to do
14 that. I think if we do that, then we need to
15 eliminate the testimony of both Mr. Reiten and Mr.
16 Bruehl in this proceeding and we can initiate a new
17 proceeding and put that testimony, or whatever form
18 it takes, into a new case.

19 But this is a very serious matter for Boise
20 Cascade, and one that we have, literally, for years
21 and years, been trying to resolve, and we have tried
22 to do everything possible to keep it out of the
23 Commission.

24 JUDGE MOSS: Well, and we certainly
25 appreciate and understand the significance that this

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1 issue has, both for you and for the Company, I'm
2 sure, and certainly we may have some role in doing
3 something about that.

4 Now, an option, too, I wasn't trying to
5 suggest that we strike everything on the record, but
6 I think my point is more that you have made that
7 point, that this is an important issue, and we don't
8 really need to spend a lot of hearing time, if you
9 will, underscoring that point if there's nothing we
10 can do in the way of relief in the context of a rate
11 case. It would seem that if you're going to pursue
12 an action, you would do so in a forum where you could
13 get some relief.

14 So I don't know. Perhaps you have an
15 affirmative, which if we're not going to go down that
16 path, to perhaps withdraw the testimony of Mr.
17 Bruehl. And I'll ask the Company, too, how they feel
18 about the idea. Mr. Van Nostrand.

19 MR. VAN NOSTRAND: Your Honor, I think we
20 would be agreeable to removing those portions of Mr.
21 Reiten's testimony that relate to the Boise Cascade
22 issue. He does have a few pages of general policy
23 testimony which would remain, but we're agreeable to
24 having this issue resolved in another forum and not
25 devote more hearing time to it.

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1 JUDGE MOSS: Yeah. Or again, we could
2 simply leave the record as it is right now and that
3 -- and your point is in the record, if you will. I'm
4 sure, you are all sitting here, you're fully aware of
5 it, as well. And I don't want to cut you off from
6 pursuing whatever remedies you may seek; we just
7 don't think this is the right case.

8 MS. DAVISON: All right. That's fine, Your
9 Honor, but I would be more comfortable removing the
10 testimony, because we take issue with some of the
11 conclusions reached by Mr. Reiten, and if I don't
12 have an opportunity to cross-examine him, I don't
13 have an opportunity to bring to the Commissioners'
14 attention the points that we disagree with factually.

15 JUDGE MOSS: Right, and we can certainly --
16 let me back up. Do you have any questions concerning
17 the general policy testimony of Mr. Van Nostrand
18 (sic)?

19 MS. DAVISON: No.

20 JUDGE MOSS: So you would not object if we
21 struck the portions that concerned the Boise Cascade
22 matter?

23 MS. DAVISON: That's correct, Your Honor.

24 JUDGE MOSS: That's what I understood Mr.
25 Van Nostrand's suggestion was. All right. And you

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1 would want to then -- would you want to withdraw -- I
2 guess we've already got it in the record, so we could
3 certainly withdraw the testimony by your Witness
4 Bruehl, if you want.

5 MS. DAVISON: I think that would be fine,
6 Your Honor.

7 JUDGE MOSS: Find those numbers. Ah, here
8 we are. All right, then. I should ask if there's
9 any further discussion. Mr. ffitch.

10 MR. FFITCH: Your Honor, if I may be allowed
11 to comment, perhaps by way of amicus. We don't have
12 a dog directly in this fight, but I would be
13 concerned if there were any precedential effect of
14 the ruling.

15 We do believe that service quality is an
16 issue in every rate case, and I would simply cite the
17 Commission's extensive discussion of service quality
18 as a factor in the rate-setting in the '95 US West
19 rate case, UT-950200. And in that case, the
20 telephone company's return on equity was actually
21 reduced as a penalty for Company-wide poor service
22 quality.

23 So again, we don't weigh in on one side or
24 the other on this fight. The parties appear to have
25 worked something out, but I did want to make that

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1 comment for the record.

2 JUDGE MOSS: Yeah, I don't think we need be
3 concerned that evidentiary rulings today and the
4 discussion that we're having here will have anything
5 in the way of precedential value. And it certainly
6 is not going to be appear in a written order. So we
7 will treat exhibit -- Mr. Trotter, did you have
8 anything?

9 MR. TROTTER: I wanted to share Mr. ffitch's
10 concern. On the other hand, I don't think this
11 record is anywhere close to as well developed as in
12 that other docket. I think, on balance, this issue
13 needs to be teed up in a more focused docket. And if
14 it's been going on this long, it's maybe time to do
15 that.

16 JUDGE MOSS: Mr. Purdy, anything?

17 MR. PURDY: The Energy Project has no
18 interest in this.

19 JUDGE MOSS: Allright. All right. Then
20 we're going to treat Exhibits 151 through 156 as
21 withdrawn. We'll not be hearing from Mr. Bruehl,
22 which will save us another 20 minutes.

23 MR. VAN NOSTRAND: Your Honor, I've
24 identified the portions of Mr. Reiten's testimony, if
25 you'd like.

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1 JUDGE MOSS: All right. Let's go ahead and
2 identify that for the record, please.

3 MR. VAN NOSTRAND: Page two, lines seven
4 through 17.

5 JUDGE MOSS: You're identifying what we
6 should take out?

7 MR. VAN NOSTRAND: Take out, yes, Your
8 Honor.

9 JUDGE MOSS: Seven through 17.

10 MR. VAN NOSTRAND: Page two. Page five,
11 line seven, through page 13, line six.

12 JUDGE MOSS: Line seven on page five through
13 --

14 MR. VAN NOSTRAND: Line six on page 13, just
15 leaving the final Q and A on page 13.

16 JUDGE MOSS: Okay. Does that satisfy you,
17 Ms. Davison?

18 MS. DAVISON: If I could get back to you at
19 a break, I'd just like to have the opportunity to
20 read it more carefully.

21 JUDGE MOSS: All right. All right. We'll
22 just reserve on that, then. And I believe you said
23 you had no questions on the general policy matters?

24 MS. DAVISON: That's right, Your Honor.

25 JUDGE MOSS: Okay. Mr. ffitch, do you have

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1 anything?

2 MR. FFITCH: No questions, Your Honor.

3 JUDGE MOSS: Okay. Very good. I don't
4 think anybody else has identified any questions, so
5 really no opportunity for redirect here, either. So
6 with that, Mr. Reiten, we thank you for your
7 appearance today and appreciate you being on the
8 stand. You may step down.

9 THE WITNESS: Thank you very much.

10 JUDGE MOSS: Ms. Kelly, when you're ready,
11 if you would rise, please raise your right hand.
12 Whereupon,

13 ANDREA KELLY,
14 having been first duly sworn by Judge Moss, was
15 called as a witness herein and was examined and
16 testified as follows:

17 JUDGE MOSS: Thank you. Please be seated.
18 Your witness, Mr. Van Nostrand.

19 MR. VAN NOSTRAND: Thank you, Your Honor.

20

21 D I R E C T E X A M I N A T I O N

22 BY MR. VAN NOSTRAND:

23 Q. Ms. Kelly, could you state your name and
24 spell it for the record, please?

25 A. Sure. My name is Andrea, A-n-d-r-e-a,

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1 Kelly, K-e-l-l-y.

2 Q. What is your position with PacifiCorp?

3 A. I'm vice president of regulation.

4 Q. Have you filed and -- prepared and filed
5 direct and rebuttal testimony in this case?

6 A. I did.

7 Q. Do you recognize that testimony as documents
8 -- or Exhibits 11 and 12?

9 A. Yes.

10 Q. Do you have any additions or corrections to
11 make to those exhibits?

12 A. I do not.

13 Q. If I asked you the questions set forth in
14 Exhibits 11 and 12 today, would your answers be the
15 same?

16 A. They would.

17 MR. VAN NOSTRAND: Your Honor, I'd move the
18 admission of Exhibits 11 and 12, and Ms. Kelly is
19 available for cross-examination.

20 JUDGE MOSS: All right. There being no
21 objection, those will be admitted as marked. And
22 we've previously admitted by stipulation 13 through
23 15 for Ms. Kelly. So let me see. I think Staff has
24 indicated a few minutes. Mr. Trotter.

25 MR. TROTTER: Yes, Your Honor.

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C R O S S - E X A M I N A T I O N

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BY MR. TROTTER:

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Q. Ms. Kelly, would you turn to page four of your rebuttal testimony, Exhibit 12-T? Your Honor, are we still using the T on these or --

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JUDGE MOSS: I don't usually use the Ts. Twelve is fine.

9

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MR. TROTTER: Okay. Twelve.

JUDGE MOSS: And what was the page again?

MR. TROTTER: Page four, line -- starting at

line six, six to seven.

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THE WITNESS: I'm there.

Q. And there you say, I believe with regard to PCAM, it's the Company's preference to employ targeted mechanisms to address power cost volatility and avoid frequent rate case filings. Do you see that?

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A. I do.

Q. If the Company approves the Company's -- excuse me, if the Commission approves the Company's proposed PCAM, is PacifiCorp committing to not file a general rate case for any particular period of time?

A. No. However, we think that it will help to minimize the need for cases associated with power

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1 cost volatility. We do see quite a bit of investment
2 coming in on the west side of our system so that we
3 will have upward pressure, but this will minimize the
4 need for, you know, full-blown rate cases associated
5 with volatility of power costs.

6 Q. But your testimony on line seven dealt with
7 the frequency of rate case filings, not the content
8 of the filings; isn't that right?

9 A. No, not necessarily.

10 Q. So when you read the term "avoid frequent
11 rate case filings," what you intended to mean by that
12 was rate case filings that might have fewer issues
13 regarding power costs?

14 A. Rate case filings that are driven primarily
15 by increases in net power costs.

16 Q. Regardless of a commitment, does the Company
17 have any forecast of the frequency of rate case
18 filings with a PCAM versus without?

19 A. We don't. A lot of it depends on how this
20 case comes out as far as the overall level of rate
21 relief that we're able to receive, the requirements
22 of the I-937 associated with renewable resource
23 acquisition and investment, which we intend to
24 pursue, as well as the design of the power cost
25 adjustment mechanism. So those are sort of three

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1 unknown factors that will impact the future of our,
2 you know, rate proceedings in Washington.

3 Q. I asked you to assume the Commission
4 approved the Company's PCAM. Did you understand
5 that?

6 A. I did not.

7 Q. Turn to page two of your testimony.

8 JUDGE MOSS: This is the rebuttal?

9 MR. TROTTER: Yes, I'm sorry, Exhibit 12,
10 line 22.

11 Q. And here you're criticizing the Staff,
12 saying that the Staff fails to recognize that the
13 risk shift has already been reflected in the return
14 on equity calculations as a result of the composition
15 of the comparable utility group used by all witnesses
16 to derive the authorized return. Do you see that?

17 A. I do.

18 Q. And implicit here is the notion that 14 of
19 the 17 utilities in PacifiCorp Witness Dr. Hadaway's
20 group of comparables in the last case had some form
21 of a PCAM?

22 A. Yes. Obviously Dr. Hadaway is available for
23 answering any detailed question on this, but that's
24 the premise of the statement here.

25 Q. Public Counsel's Witness Mr. Hill was a cost

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1 of capital witness in the last rate case, wasn't he?

2 A. I don't know. I wasn't part of that rate
3 case.

4 Q. Well, when you testified on the top of page
5 three that a comparable utility group is used by all
6 witnesses, did you investigate who the witnesses were
7 in that case?

8 A. I did not. I based that statement on the
9 the testimony of Dr. Hadaway and Mr. Williams.

10 Q. Well, I'll ask you to accept, subject to
11 your check, that Mr. Hill's group of comparables
12 included six utilities that were not included by Dr.
13 Hadaway. Can you check that?

14 MR. VAN NOSTRAND: Your Honor, I'm not sure
15 how we check that. That exhibit has not been offered
16 as a part of this record.

17 JUDGE MOSS: Well, and Mr. Trotter, I think
18 the witness' response to your prior question
19 clarifies that all she's talking about here is what
20 Dr. Hadaway had in his model and Mr. Williams'
21 testimony, I assume in this case?

22 THE WITNESS: Yes.

23 JUDGE MOSS: So to that extent, we certainly
24 would not infer from the statement that's made in the
25 pre-filed testimony that it is indeed true that all

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1 witnesses in that prior case included such a group.
2 I don't really want to ask the witness to go back and
3 check the record in a prior case and try to verify
4 something that she may not be qualified to do in any
5 event.

6 MR. TROTTER: Then I move to strike the
7 testimony on Exhibit 12, page two, line 19, to page
8 three, line one, for lack of foundation.

9 JUDGE MOSS: I'm going to overrule that for
10 the reason I just gave. She's explained the basis
11 for the statement.

12 Q. The Commission determined a return on equity
13 figure that was not recommended by any specific
14 witness in that case; isn't that right?

15 A. Again, I'm not familiar with the details of
16 that case.

17 Q. PacifiCorp has not calculated the level of
18 risk shifting that exists in PacifiCorp's proposed
19 PCAM or any of the PCAMs used by the utilities in Dr.
20 Hadaway's comparable group; isn't that right?

21 A. I don't think so. I think Mr. Widmer has
22 calculated what some estimated impacts of the power
23 cost adjustment mechanism would be.

24 Q. That would be for PacifiCorp?

25 A. Yes, I believe so. I think he also looked

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1 at the other two Washington investor-owned utilities
2 and compared our power cost adjustment mechanism
3 design to those that have been adopted for the other
4 two utilities in Washington.

5 Q. And you're referring to Avista and Puget?

6 A. I am.

7 Q. And Avista and Puget were not in Mr.
8 Hadaway's -- excuse me, were not in Dr. Hadaway's
9 comparable group, were they?

10 A. No, it does not appear they were.

11 Q. Now, you say, on the top of the page three
12 of Exhibit 12, that all witnesses -- you referred to
13 the comparable utility group used by all witnesses to
14 derive the authorized return. Isn't it correct that
15 the Commission derived the authorized return in that
16 case?

17 A. Yes, they derived it based on the testimony
18 of witnesses and the record in that case, I would
19 assume.

20 Q. But authorized return means the one issued
21 by the Commission, isn't it?

22 A. That's correct.

23 Q. Turn to page four of Exhibit 12, line 19.
24 You state that Dr. Hadaway's testimony highlights the
25 inconsistencies of Mr. Elgin's capital structure

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1 adjustment with PacifiCorp's commitment in the MEHC
2 transaction to maintain certain minimum equity of
3 ratios. Do you see that?

4 A. I do.

5 Q. Now, isn't it correct that Dr. Hadaway also
6 claims not just an inconsistency, but a violation of
7 the merger commitments?

8 A. Could you point me to his testimony where he
9 says that?

10 Q. Yes, page eight, lines 15 through 18 of
11 Exhibit 51.

12 A. I think what he says here is that the
13 recommendation would, if implemented, create a
14 violation of the commitments adopted by the
15 Commission in granting regulatory approval of the
16 MEHC acquisition.

17 Q. Right. So does PacifiCorp agree it would be
18 a violation of the commitment if implemented, if the
19 Commission implements Staff's recommended equity
20 ratio in this case?

21 A. I agree that it would -- if it were
22 implemented, it would mean that the commitment itself
23 would not allow the Company to make any dividends up
24 to its parent company, which was not the intention of
25 the workings behind the transaction commitment.

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1 Q. And we're talking about Commitment 18(A); is
2 that right?

3 A. I don't know the number offhand.

4 Q. Anyway, let me represent to you that 18(A)
5 is a commitment by MEHC and PacifiCorp that
6 PacifiCorp will not make any dividends up that will
7 reduce its common equity below 48.25 percent through
8 December 31st, 2008. Does that ring a bell?

9 A. It does. Then there are other step-downs
10 over time, as I recall.

11 Q. The percentage reduces through 2011?

12 A. I think it goes down to a low of about 44
13 percent, which is still higher than the
14 recommendation that Mr. Elgin is making in this case.

15 Q. Right. The Commission has set rate --
16 excuse me. The Commission, in the last rate order,
17 determined an equity ratio of 46 percent for
18 PacifiCorp, did it not?

19 A. It did.

20 Q. Did that violate the 48.25 commitment level
21 in 18(A)?

22 A. No.

23 Q. Why not?

24 A. Again, I think it's the if implemented. We
25 did not -- as you can see from Mr. Williams'

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1 testimony, the capital structure of PacifiCorp has
2 strengthened over time and we are now sitting at a
3 capital structure of, I believe, 49 percent equity
4 that allows us to fulfill the requirements of this
5 commitment as far as the expectation within our
6 actual capital structure.

7 Q. Mr. Williams, for PacifiCorp, is proposing
8 the Commission set rates using a 46 percent equity
9 ratio, doesn't he?

10 A. We are proposing, for purposes of this case,
11 not to re-litigate the capital structure that was
12 adopted by the Commission in the last case for
13 purposes of ease of moving through this case and
14 limiting the number of issues, but you're right,
15 we're not re-litigating that issue in this case.

16 Q. And the equity ratio is 46 percent?

17 A. Correct.

18 Q. Does that violate Commitment 18(A), if
19 implemented?

20 A. Well, it has not been implemented.

21 Q. If the Commission adopts the Company's
22 recommendation to set rates using 46 percent equity
23 ratio in the capital structure, would that violate
24 Commitment 18(A)?

25 A. No, it would be a hypothetical capital

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1 structure, not what has been implemented by the
2 Company. I think that's the distinction, is the
3 implementation versus the hypothetical capital
4 structure that's been adopted for rate-making
5 purposes.

6 Q. Oh, okay. So you agree that Commitment
7 18(A) does not have any impact on what capital
8 structure the Commission approves for rate-making?

9 A. That's correct.

10 Q. And I'd just like to quote you some
11 testimony from Mr. Gale in that docket. He was
12 testifying for PacifiCorp; is that right?

13 A. No, he was testifying for --

14 Q. In the MEHC docket, UE-051090?

15 A. I think he testified for MidAmerican.

16 Q. All right. For MidAmerican, that's fine.

17 A. Yeah, okay.

18 Q. Where he said, quote, Nor does the
19 existences -- he may have meant existence -- of the
20 percentages in 18(A) and the percentages in 11 have
21 any impact on what capital structure you, referring
22 to the Commission, approve for rate-making purposes,
23 end quote. Do you agree with that statement?

24 A. I do.

25 Q. Did you understand that Staff's

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1 recommendation for equity ratio in this case is
2 anything other than a recommendation for rate-making
3 purposes?

4 A. I haven't reviewed that testimony as
5 closely. That's probably best answered by Dr.
6 Hadaway.

7 Q. Well, your testimony says that Staff's
8 proposed capital structure is inconsistent with the
9 merger commitment. We just agreed that that merger
10 commitment has nothing to do with rate-making. So
11 I'm trying to figure out why the Staff's
12 recommendation is inconsistent if it is simply being
13 used for rate-making?

14 A. Well, I think where it's inconsistent is
15 that Staff saw that as an important ring-fencing
16 provision, I think state-of-the-art ring-fencing
17 provision that protected customers. I think what we
18 look at is that that level was deemed by Staff to be
19 appropriate as far as how much we can dividend up,
20 that we shouldn't be dividending more than -- more
21 dividends than to bring us below a 48 percent capital
22 structure on equity. That seems inconsistent, that
23 they felt that that was a state-of-the-art
24 ring-fencing provision, but think that rates should
25 be set on a 42 percent. That's where the

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1 inconsistency is, in my mind.

2 Q. Staff's recommendation for equity ratio in
3 this case is related to PCAM, isn't it?

4 A. That's my understanding of how Mr. Elgin
5 came up with his recommendation, that he tried to tie
6 it to changes related to the PCAM, but obviously we
7 take issue with the methodological approaches there.

8 Q. We understand that, but his testimony was
9 not related to ring-fencing, was it?

10 A. No.

11 MR. TROTTER: I have nothing further. Thank
12 you, Your Honor.

13 JUDGE MOSS: Thank you. I believe you were
14 the only one to indicate cross-examination for Ms.
15 Kelly, so let me ask if there's any redirect?

16 MR. VAN NOSTRAND: No, Your Honor.

17 JUDGE MOSS: All right. Any questions from
18 the Bench? Commissioner Jones.

19

20 E X A M I N A T I O N

21 BY COMMISSIONER JONES:

22 Q. Ms. Kelly, I just have a follow-up on Mr.
23 Trotter's cross. Page two, where you talk about this
24 risk shifting and the ROE, the return on equity
25 issue, is it your position that -- I guess my -- let

0162

1 me rephrase.

2 The basis for the risk shifting that you say
3 has already been incorporated in the ROE
4 calculations, is that based on the comparable utility
5 group used in Mr. Hadaway's -- primarily, is it based
6 on his calculations in the previous rate case, or is
7 it based on the fact that Avista, the other two
8 utilities in this state, receive a similar ROE and
9 have PCAs?

10 A. I think it's a combination, that at this
11 point we have incorporated dead bands, we've
12 incorporated sharing bands that have a mitigation as
13 far as the risk shifting, that when you look at the
14 other utilities in this state, there has not been a
15 reduction to their ROE associated with implementing
16 them. There might be over time, and we agree that
17 this should be evaluated and looked at once the power
18 cost adjustment mechanism is in place, but at this
19 point in time, it seems premature to extract a
20 hundred basis point reduction, you know, effectively
21 \$4 million reduction in revenue requirement to
22 implement a power cost adjustment mechanism.

23 COMMISSIONER JONES: I think this would be a
24 Bench request, Judge. I would like the Company to
25 submit Dr. Hadaway's comparable utility group, the

0163

1 proxy group that was used to derive the authorized
2 rate of return in the previous rate case.

3 MR. TROTTER: Your Honor, I believe that is
4 an exhibit.

5 COMMISSIONER JONES: Is it already in?

6 MR. TROTTER: Perhaps the Company -- just a
7 moment.

8 THE WITNESS: Yes, I believe it's SCH-5.

9 JUDGE MOSS: Which would be 55 in our
10 exhibit list. Does that satisfy your need,
11 Commissioner Jones?

12 COMMISSIONER JONES: I'd just like to
13 clarify, is this the most recent proxy group for this
14 rate case or is this the proxy group from the
15 previous rate case? What's the date of this data?

16 JUDGE MOSS: Well, Dr. Hadaway's our next
17 witness. I believe you can ask him.

18 COMMISSIONER JONES: Okay. That's all I
19 have.

20 JUDGE MOSS: All right. Nothing further for
21 Ms. Kelly? All right. Ms. Kelly, thank you for
22 being with us today. You may step down.

23 THE WITNESS: Thank you.

24 JUDGE MOSS: And I believe Dr. Hadaway is
25 our next witness.

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1 Whereupon,

2 DR. SAMUEL C. HADAWAY,

3 having been first duly sworn by Judge Moss, was

4 called as a witness herein and was examined and

5 testified as follows:

6 JUDGE MOSS: Please be seated.

7 THE WITNESS: Thank you.

8

9 DIRECT EXAMINATION

10 BY MR. VAN NOSTRAND:

11 Q. Dr. Hadaway, can you state your name and
12 spell it for the record, please?

13 A. My name is Samuel C. Hadaway, S-a-m-u-e-l,
14 middle initial C., like Charles, Hadaway,
15 H-a-d-a-w-a-y.

16 Q. And have you pre-filed cost of capital
17 testimony on behalf of the Company in this case?

18 A. Yes, I have.

19 Q. Do you recognize your testimony, your
20 pre-filed rebuttal testimony as Exhibit 51?

21 A. Yes, sir.

22 Q. And accompanying Exhibits 52 through 55?

23 A. Yes.

24 Q. Do you have any additions or corrections to
25 make to your testimony or your exhibits?

0165

1 A. I do not.

2 Q. If I asked you the questions set forth in
3 Exhibit 51 today, would your answers be the same as
4 set forth therein?

5 A. Yes, they would.

6 Q. Are Exhibits 52 through 55 true and correct,
7 to the best of your knowledge?

8 A. Yes.

9 MR. VAN NOSTRAND: Your Honor, I'd move the
10 admission of Exhibits 51 through 55, and Dr. Hadaway
11 is available for cross-examination.

12 JUDGE MOSS: Hearing no objection, those
13 will be admitted as marked. And Mr. Trotter, you
14 again are the only counsel to have indicated
15 cross-examination, so you may proceed.

16

17 C R O S S - E X A M I N A T I O N

18 BY MR. TROTTER:

19 Q. Welcome back, Dr. Hadaway.

20 A. Thank you, Mr. Trotter.

21 Q. Just to ease the suspense, would you turn to
22 Exhibit 55, and that's a two-page exhibit. And you
23 list 17 utilities on that exhibit; is that right?

24 A. Yes, sir, I do.

25 Q. And this was the group of comparables upon

0166

1 which you based your cost of equity recommendation in
2 the last case, at least in your direct testimony?

3 A. That I and Staff and Mr. Gorman, and all but
4 about three of these companies were used by Mr. Hill.

5 Q. Okay. And then in your rebuttal, you
6 reduced the list to 14; is that right?

7 A. I believe that is correct because of the
8 changes in bond ratings.

9 Q. Well, and I believe one of them was due to a
10 change because one company was in a merger situation?

11 A. That's probably correct, yes.

12 Q. That rings a bell? Now, I counted six of
13 Mr. Hill's companies that were not on your list. I
14 think seven were and six weren't.

15 A. There may have been a misunderstanding. I
16 thought you asked Ms. Kelly if Mr. Hill used six
17 companies.

18 Q. I see.

19 A. He used 13 companies, all but two of which
20 have PCAMs.

21 Q. Yes. Okay. But in terms of the comparable
22 companies, seven of his 13 were on your list and six
23 were not?

24 A. At least seven. I think it may have even
25 been more than that, Mr. Trotter.

0167

1 Q. You don't recall?

2 A. I looked at these 13 companies just a few
3 minutes ago, and there were a few that are not on my
4 list.

5 Q. Okay.

6 A. But they were very, very similar groups, and
7 his group was not a six-company group; it was a
8 13-company group.

9 Q. Yes, I understand that. Would you please
10 turn to page four of Exhibit 51? And on line ten,
11 beginning on line nine, you state, To the extent --
12 quote, To the extent that a PCAM or other mechanism
13 reduces a given utility's risks to less than the
14 corresponding risks of other similarly-situated
15 enterprise, the subject utility's allowed rate of
16 return should reflect the lower risks, unquote. Do
17 you see that?

18 A. I see that, and the following sentence says
19 the flip side of that.

20 Q. Right.

21 A. Risk and return should be related.

22 Q. And what you mean is that if you have two
23 utilities at the same business risk and all else
24 equal, the one that has a PCAM should have a lower
25 rate of return; is that right?

0168

1 A. It would be difficult to imagine two
2 companies that have the same business risk if one has
3 a PCAM and one does not.

4 Q. Well, let me rephrase it. What you mean
5 here is that if you have two utilities that, prior to
6 the implementation of a PCAM, had the same business
7 risk, all else equal, if you implement a PCAM for one
8 of them, that utility should have a lower rate of
9 return?

10 A. If you had two companies that both were
11 exactly alike and you exposed one of them to power
12 cost fluctuations and the other remained unexposed,
13 then certainly your statement is true.

14 Q. And a PCAM serves to reduce or eliminate the
15 exposure, depending on how it's structured, to power
16 cost variation?

17 A. The ones that are proposed in this case
18 would reduce that exposure.

19 Q. Please refer to Exhibit 57.

20 A. Mr. Trotter, if I might ask, mine are
21 numbered by SCH-3 and 4 and like that, if that's
22 convenient.

23 MR. TROTTER: Could we go off the record for
24 a moment, Your Honor?

25 JUDGE MOSS: Yeah.

0169

1 (Discussion off the record.)

2 MR. TROTTER: Back on the record. Thank
3 you.

4 JUDGE MOSS: I have it as your second cross
5 exhibit.

6 Q. Sorry, second cross exhibit. The first is
7 the MEHC commitments. Let's just get that one out of
8 the way, Dr. Hadaway. Exhibit 56, I set forth the
9 appendix to the Commission's order in Docket
10 UE-051090, in which the Commission approved a
11 settlement, and these are the settlement stipulations
12 and commitments that were made in that docket; is
13 that right?

14 A. Yes, Mr. Trotter.

15 Q. Let's move on to Exhibit 57. And does this
16 exhibit correctly set forth the recommendations of
17 the cost of capital witnesses in Docket UE-050684,
18 the last PacifiCorp rate case?

19 A. Yes, sir, it does.

20 Q. Is it your opinion that each of these rate
21 of return recommendations assume a PCAM is in effect
22 or reflect -- let me just ask it that way. Do all of
23 these -- each of these rate of return recommendations
24 assume a PCAM is in effect?

25 A. Each of the recommendations is based on the

0170

1 comparable group for which the vast majority of the
2 companies have PCAMs. I do not recall, Mr. Trotter,
3 that being an explicit issue in the 2005 case.

4 Q. So do you have an opinion whether each of
5 these figures reflect the existence of a PCAM?

6 A. It is my opinion that they do, as I stated
7 before.

8 Q. Okay.

9 A. Because for Staff, ICNU, and for the
10 Company, we used exactly the same groups, and I know
11 the very fine details of those companies.

12 Q. So your answer to my question is yes, with
13 your explanation?

14 A. With my explanation, yes, thank you.

15 Q. Now, in selecting your comparable utilities
16 in the last rate case, the factors you used for
17 determining what goes into the group were companies
18 that had a single A bond rating, 70 percent of their
19 revenues were from regulated utility sales, utilities
20 had consistent financial records and a consistent
21 record of paying dividends; is that right?

22 A. Those are the primary ones. Occasionally
23 there's an extraordinary event, such as a merger or
24 -- that sort of goes into the consistent financial
25 records part.

0171

1 Q. Okay. So I think we've captured the
2 criteria you used?

3 A. Yes, sir.

4 Q. So having a PCAM was not a factor for
5 selecting companies in the comparable group; is that
6 right?

7 A. It was not an explicit factor.

8 Q. Please turn to Exhibit 58, which is the
9 first page of your exhibit from the last case. Do
10 you recognize that?

11 A. Yes.

12 Q. And this is the summary page of your cost of
13 equity, Exhibit 24 from your direct testimony in
14 Docket UE-050684?

15 A. This is the summary of the DCF portion of
16 that analysis, yes, sir.

17 Q. And this shows the 17 utilities you used to
18 develop your ROE estimate in your direct testimony?

19 A. Yes.

20 Q. And am I correct that three of the companies
21 on this list did not have PCAMs? Line two, Ameren,
22 line six, Empire District, and line nine, Exelon?

23 A. Yes, sir.

24 Q. And this table indicates that, as you used
25 the traditional constant growth DCF model, Exelon's

0172

1 ROE, under the first column of figures, Exelon's ROE
2 was 200 basis points higher than Ameren's ROE;
3 correct?

4 A. Yes.

5 Q. And Ameren had the second lowest ROE in the
6 whole group, did it not?

7 A. Yes, it appears to be -- it appears to be
8 tied for second with about three others, yes, sir.

9 Q. Okay. And in the middle column, under the
10 constant growth DCF model, Exelon's ROE was 130 basis
11 points lower than Ameren; is that right?

12 A. Yes, I believe it's 140, isn't it?

13 Q. 140?

14 A. Let's see. I may not be looking at that
15 correct. Are you talking about 10.4 -- yes, it's
16 130. You're right.

17 Q. Okay. So would it be fair to say that the
18 returns on equity for these companies is not driven
19 by the fact that they lack PCAMs and that there are
20 many other factors investors consider when evaluating
21 the risk of utilities?

22 A. Mr. Trotter, I'd have to be careful there,
23 because that's why we use a big group. We don't look
24 at just one or two of the companies; we look at the
25 group averages. So these models are just not as

0173

1 precise I think maybe as you would lend the
2 credibility to them. I don't think we can look at
3 them this way and say this one is bigger than that
4 one in one model or smaller than that one in the
5 other.

6 Certainly the existence or lack of existence
7 of a PCAM affects the company's risk, but sometimes
8 there are many other factors. For example, Exelon,
9 as you probably well know, is very large in the
10 nuclear generation business, so that, you know, there
11 are a number of factors like that that could easily
12 dominate a PCAM issue.

13 Q. Would you agree the DCF method, as
14 traditionally applied, is not capable of doing the
15 kind of fine-tuning to compare one company versus
16 another based on a PCAM or not a PCAM?

17 A. It might be if we had a large enough sample
18 of companies with that, but there's just very, very
19 few companies that don't have PCAMs.

20 Q. And is this exhibit a sufficient sample for
21 doing that?

22 A. Since it's not based on that particular
23 issue, it doesn't focus on that issue.

24 Q. Turn to page five of your testimony. And on
25 lines one through five, you indicate that the

0174

1 Commission has said it will make its determination
2 regarding a cost of capital reduction as part of the
3 overall analysis of how the mechanism shifts risks
4 between investors and ratepayers. Do you see that?

5 A. Yes.

6 Q. Then you go on to discuss PSE and Avista.
7 Is it your testimony that because PacifiCorp's PCAM
8 is the same as those the Commission approved for
9 other utilities in this state and that each of those
10 other utilities has a comparable ROE determination
11 from the Commission, that no adjustment is necessary
12 in this case?

13 A. That's one of the factors. The other two
14 utilities have a ten-four ROE, which are
15 significantly higher than those recommended certainly
16 after Mr. Gorman's adjustment or the effective
17 adjustment that Mr. Elgin makes.

18 Q. Now, neither Avista or PSE were in your
19 group of comparables, were they?

20 A. No.

21 Q. Turn to your Exhibit 53.

22 A. Mr. Trotter, these may be the ones that you
23 have to help me with.

24 Q. Okay. This is SCH-3.

25 A. Thank you. Yes, I have that.

0175

1 Q. Now, in both this exhibit and in your
2 following exhibit, you show financial ratios that
3 indicate weaker financial results than what Mr.
4 Elgin, for Staff, indicated in his analysis; is that
5 right?

6 A. Mr. Elgin did a different kind of an
7 analysis. He used what's called the EBIT interest
8 coverage ratio, which S&P has rejected. It doesn't
9 use that anymore, since 2004. He also made mistakes
10 in that analysis where he left out imputed debt and
11 he also simply calculated EBIT wrong by tax effecting
12 the impact of a power cost absorption by the Company.
13 His is a pre-tax ratio. He reduced the effect of
14 excess power cost by multiplying them essentially by
15 one minus the tax rate. He should not have done
16 that. His analysis is just wrong.

17 Q. Okay. But the bottom line is you would show
18 weaker financial results at the same level of excess
19 power cost than what Staff showed; is that right?

20 A. If he had done the analysis right, we would
21 get the same answers. I can't agree that they're
22 weaker, because he didn't really do this analysis.

23 Q. Turn to page nine of your testimony, line
24 seven. And there you identify S&P's published
25 benchmarks of funds from operation to total debt,

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1 FFO, interest coverage and total debt to capital. Do
2 you see that?

3 A. Yes.

4 Q. And S&P does not rely exclusively on these
5 three financial metrics because S&P considers many
6 factors in determining a rating; is that right?

7 A. In terms of ratios, these are the ones they
8 rely on. They do certainly consider many other
9 factors.

10 Q. And on line 19, you refer to your Exhibit 53
11 as an analysis of Mr. Elgin's position, and you,
12 among other things, seek to impute additional debt
13 associated with purchased power agreements in that
14 exhibit; is that right?

15 A. Yes, because S&P does impute debt for
16 purchased power agreements.

17 Q. Let's go, then, to Exhibit 53. And this is
18 your attempt to calculate the S&P financial ratios
19 that you discuss on page nine of your testimony; is
20 that right?

21 A. Yes, sir, that's right.

22 Q. Now, S&P begins with generally accepted
23 accounting principles-based results, doesn't it, GAAP
24 results, G-A-A-P?

25 A. Now, Mr. Trotter, in their discussion of

0177

1 their ratios, they don't say that, but I assume
2 that's generally what most people do. They use the
3 Company's financial statements that are put together
4 under GAAP.

5 Q. And Exhibit 53 is not based on GAAP, is it?

6 A. I'm not sure if we're on the same page here,
7 Mr. Trotter.

8 Q. Page one of four?

9 A. No, I'm on the right page, but -- sorry,
10 manner of speaking. These numbers are based on
11 regulatory rate base and things like that that
12 ultimately lead to GAAP financial statements. But
13 this model is the one that is used by most economists
14 to calculate S&P's ratios.

15 Q. All right. I'm asking you -- we agreed -- I
16 believe we agreed that S&P uses GAAP results, and I'm
17 asking if this exhibit uses GAAP results. Can you
18 answer that question?

19 A. I cannot.

20 Q. Isn't it true that when S&P does its
21 analysis using the concepts reflected in Exhibit 53,
22 that S&P adds back in the amount of imputed interest
23 to the net operating income figure?

24 A. Yes.

25 Q. Where did you do that on Exhibit 53?

0178

1 A. It's included in there.

2 Q. Just give me a line.

3 A. Well, if you look at the FFO interest
4 coverage, FFO is basically net income plus
5 depreciation, plus amortization, plus any other
6 non-cash item. So to the extent that FFO doesn't
7 include that add-back, it does not. If they were
8 doing the analysis that Mr. Elgin did, they would add
9 it back, because it's an EBIT, earnings before
10 interest and taxes.

11 Q. Okay. Let me follow that. About just below
12 halfway down the page, well, right about the halfway,
13 you have a title that says Funds From Operations,
14 FFO/Total Debt. Do you see that?

15 A. Yes.

16 Q. Two lines lower, you have PCAM NOI Impact;
17 right?

18 A. Yes.

19 Q. And just above that, you have the net income
20 figure. So you have net income and you added back
21 depreciation, amortization and deferred income tax;
22 right?

23 A. Yes.

24 Q. Okay. And that's the discussion that you
25 just gave?

0179

1 A. That's right.

2 Q. Okay. And do I take it correctly you did
3 not add back imputed interest?

4 A. Not in the FFO coverage ratio, because it is
5 not part of that.

6 Q. Okay. Did you add it back on any of the
7 ratios that you show on this page?

8 A. No, Mr. Elgin added it back in his EBIT
9 ratio, which is -- if that ratio were used, that
10 would be the proper thing to do.

11 Q. So you're saying that S&P does not add it
12 back in determining FFO ratios?

13 A. No, I'm sorry, they do not. You're
14 absolutely right.

15 MR. TROTTER: Your Honor, I'm missing one of
16 my exhibits. I apologize. Could we go off the
17 record for a brief moment?

18 JUDGE MOSS: We'll wait for you.

19 MR. TROTTER: Thank you.

20 Q. Would you turn to Exhibit 59?

21 MR. TROTTER: Are we back on the record?

22 Thank you, Your Honor. I apologize. I don't know
23 why it didn't get into my notebook yesterday.

24 Q. Turn to Exhibit 59, which is a copy of S&P's
25 ratings -- excuse me, rating direct from December

0180

1 21st of 2006. Do you see that?

2 A. Yes, thank you.

3 Q. Turn to page two of that exhibit. Excuse me
4 just a moment. I'm sorry. I'm sorry. The first
5 page. I apologize. It's the first page, first
6 paragraph. It states that the A-minus corporate
7 credit rating on PacifiCorp reflects the consolidated
8 credit profile of parent MEHC. Do you see that?

9 A. Yes.

10 Q. So for PacifiCorp, S&P uses the consolidated
11 rating methodology; is that right?

12 A. They typically consider a utility
13 subsidiary's rating in combination with the
14 organization that it's part of. Support from
15 Berkshire Hathaway's mentioned right after that.

16 Q. Right.

17 A. They also say that PacifiCorp's rating might
18 be some notches higher than MEHC under certain
19 circumstances if its ratios justified it, for
20 example.

21 Q. Right. Let's go to page two, fourth
22 paragraph. S&P says, Under the consolidated rating
23 methodology, we focused primarily on MEHC's
24 consolidated financial profile. Do you see that?

25 A. Yes, I see that.

0181

1 Q. So if we were to replicate a ratings
2 analysis for PacifiCorp as done by S&P, that would be
3 a consolidated methodology using MEHC's consolidated
4 operations; is that right?

5 A. No, I don't think so, Mr. Trotter. I think
6 what they're saying here is that the consolidated
7 organization is considered in the subject utility's
8 final bond rating, but they certainly would do these
9 ratios for PacifiCorp itself.

10 Q. Okay. Well, they don't just say they
11 consider it, they say they focused primarily on
12 MEHC's consolidated management profile; isn't that
13 right?

14 A. Yes, that's what they say.

15 Q. Your Exhibit 53 is not an analysis of MEHC's
16 consolidated operations, is it?

17 A. No, and it should not be. It should be
18 PacifiCorp, because the rating agencies do indeed
19 look at the specific company if the specific company,
20 and they say this in a more recent rating report, had
21 higher ratios than this consolidated MEHC. In the
22 most recent rating report, they say that PacifiCorp
23 could be rated four notches higher.

24 So you are taking their statement that they
25 look primarily at the consolidated metrics a little

0182

1 beyond where they actually go.

2 Q. Turn to page 11 of your testimony, and in
3 reference to your Exhibits 3 and 4, toward the end of
4 page one, you say that if Staff had done its analysis
5 the way you said -- say he should, Mr. Elgin would
6 have shown weaker financial results. Do you see
7 that?

8 A. I'm sorry, tell me the line again.

9 Q. It's the last two lines. I'm focusing on
10 the words weaker financial results.

11 A. Yes, I'm just saying that he did the
12 analysis incorrectly.

13 Q. Right. And if he had done it correctly --
14 according to you correctly -- he would have shown
15 weaker financial results; is that right?

16 A. Yes.

17 Q. And what you mean by that is that, under
18 your calculations, the Company would get into
19 financial trouble more quickly than under the way
20 Staff did the calculations; is that right?

21 A. I mean two things, Mr. Trotter. First, Mr.
22 Elgin's analysis is wrong. It left out the imputed
23 debt and it calculated the impact of a power cost
24 shortfall incorrectly. So had he done those things
25 correctly stand alone, even if this were the right

0183

1 ratio, then his numbers would have not shown the two
2 and a half times coverage ratio. That's what I'm
3 demonstrating here.

4 In addition to that, he did use the wrong
5 ratio, and we went on to demonstrate that had he used
6 the correct ratios, that that would have implied
7 double B to triple B bond ratings for PacifiCorp.

8 Q. Okay. I want to go back to my question.
9 And I'm focusing on your testimony where you say he
10 would have shown weaker financial results.

11 A. I think my explanation stands.

12 Q. Okay. But -- well, let me ask it this way.
13 Please assume that the Commission approves
14 PacifiCorp's proposed PCAM. Do you have that
15 assumption in mind?

16 A. Yes, sir.

17 Q. And that means that ratepayers will absorb
18 90 percent of all excess power costs over four
19 million. Is that your understanding?

20 A. Yes.

21 Q. So if excess power costs reached the \$10
22 million level, ratepayers will absorb about 5.4
23 million of that ten million; is that right?

24 A. Let's go back, Mr. Trotter. Mr. Widmer
25 obviously is the witness on this is how it works.

0184

1 Did you say over nine million or over four million?

2 Are we in the right bracket, is what I'm asking.

3 Q. Yeah, if excess power costs reach ten
4 million. So --

5 A. I thought maybe I agreed that four million
6 was the number. Sorry.

7 Q. Let me start over. Assume excess -- assume
8 the Company's PCAM is approved and the excess power
9 costs reach ten million. Do you have those two
10 assumptions?

11 A. Yes, thank you.

12 Q. Under the Company's proposed PCAM, the
13 Company will absorb the first four million; right?

14 A. Yes.

15 Q. And it will absorb 90 percent of the rest;
16 right?

17 A. I believe that's correct, Mr. Trotter.

18 Q. And the rest would be -- excuse me, it will
19 absorb ten percent of the next six million, which
20 would be 0.6 million; right? Ten minus four --

21 A. The Company's proposed PCAM's what it is,
22 Mr. Trotter. I'm not sure we're communicating on
23 this.

24 Q. Okay. Well, under the Company's proposed
25 PCAM, if excess power costs reach ten million, the

0185

1 ratepayers will absorb a significant amount of that
2 ten million. Can we agree on that?

3 A. Yes.

4 Q. And looking at your Exhibits 53 and 54,
5 where you show weaker financial results than what
6 Staff showed, is the effect of PacifiCorp's PCAM
7 shown anywhere on those two exhibits?

8 A. It's the panel at the top of both of those
9 exhibits, but I believe it's focused on the Staff's
10 PCAM, Mr. Trotter.

11 Q. Okay. Let's go to Exhibit 53. Where on
12 this exhibit do you show the effect of Staff's
13 proposed PCAM?

14 A. If you look in the top panel, where it says
15 Expense ABS absorbed by Company, then the first four
16 million --

17 Q. Okay, I see, I see. I'm with you now.

18 A. And 50 percent of the amount. That's why I
19 didn't think we were communicating earlier.

20 Q. I'm with you. You're using a different
21 example. But these exhibits do not show the effect
22 of the Company's proposed PCAM?

23 A. No, they're evaluations of Mr. Elgin's
24 analysis.

25 Q. Now, if the Commission approves a PCAM, S&P

0186

1 will impute less debt based on its analysis of
2 purchased power agreements; isn't that correct?

3 A. It may, but only if that includes full
4 recovery of the capacity charges in any purchased
5 power agreement. And I don't know the details of the
6 proposed PCAM well enough to say about that, but just
7 having a PCAM doesn't necessarily reduce the imputed
8 debt.

9 Q. Now, you were a witness in the last case,
10 weren't you?

11 A. Yes, sir.

12 Q. And do you recall Ms. Omohundro was a
13 witness for PacifiCorp in that case?

14 A. I do.

15 Q. I'm just going to give you a quote from her
16 testimony and see if you recall it and agree with it.
17 Quote, Under the approach followed by Standard and
18 Poor's, a 10 to 20 percent imputation is applied when
19 PCAM is legislatively approved, a 30 to 50 percent
20 imputation is applied for a Commission-based PCAM,
21 and a 50 to 70 percent imputation is applied without
22 a PCAM, unquote. Is that consistent with your
23 understanding?

24 A. Unfortunately, S&P revised all that November
25 1st, 2006.

0187

1 Q. Okay.

2 A. They currently use a 50 percent discount
3 factor, if you will, if the purchased power
4 commitments are not covered, that is, the capacity in
5 the purchase power commitments are not covered by a
6 PCAM, and typically, in many states, they are not.
7 If they are covered, then they reduce that discount
8 factor to 25 percent.

9 Q. Okay. And under the Staff and Company's
10 proposed PCAM, are they or are they not included?

11 A. I do not know. You'd have to ask Mr. Widmer
12 about that.

13 Q. You didn't analyze that issue?

14 A. I did not.

15 MR. TROTTER: Those are all my questions.
16 Thank you.

17 JUDGE MOSS: And you were the only counsel
18 to indicate questions for Mr. Hadaway -- Dr. Hadaway.
19 Does the Bench have questions for Dr. Hadaway?
20 Commissioner Jones.

21

22 E X A M I N A T I O N

23 BY COMMISSIONER JONES:

24 Q. Good morning, Mr. Hadaway.

25 A. Good morning, Commissioner Jones.

0188

1 Q. Good to see you again.

2 A. Thank you, sir.

3 Q. You testified before a number of, according
4 to your vitae in Exhibit 52, you testify on cost of
5 money in a number of jurisdictions, do you not?

6 A. Yes.

7 Q. Can you explain to me the difference between
8 cost of money and capital structure testimony? It
9 appears that your most recent capital structure
10 testimony was before FERC in May of 1997; was that
11 correct?

12 A. The ones that were strictly limited to
13 capital structure are listed in that section of my
14 vitae. In many cases, where they're just listed as
15 cost of money, I've done both ROE and capital
16 structure.

17 Q. According to your experience, are there any
18 other jurisdictions that have adopted an adjustment
19 of the type that Mr. Elgin is proposing, an
20 adjustment to the capital structure for power cost
21 volatility?

22 A. I'm not aware of any.

23 Q. Are there any companies in the proxy group,
24 to your knowledge, that have adopted a cost of
25 capital structure adjustment of the 17 that you list?

0189

1 A. I'm not aware of any, not based on their
2 PCAMs.

3 Q. Could you turn to Exhibit 59 again, please,
4 the S&P rating?

5 A. Yes, sir, I have it.

6 Q. Is there any mention of a PCA and S&P's
7 concerns about the lack of a PCA in this jurisdiction
8 in this credit rating report?

9 A. No, sir. No, sir.

10 Q. If there is any concern about this
11 jurisdiction's lack of a PCAM, a power cost
12 adjustment, where would you attribute it to? I
13 notice in the last paragraph on page one, where it's
14 describing PacifiCorp's business profile being a
15 satisfactory five, they talk about some challenges
16 that PacifiCorp has; correct?

17 A. Yes, sir.

18 Q. Which of those items would you attribute the
19 lack of a PCAM to most directly?

20 A. Well, the last sentence or so there talks
21 about the nature of their power supply, so certainly
22 that's where it would come in. and certainly the
23 rating agencies are aware of the Company's progress
24 in obtaining PCAMs in some of its jurisdictions and
25 its efforts to do so in this jurisdiction.

0190

1 Q. So it would be, I would say, challenges that
2 are reflected in PacifiCorp's business and include
3 its exposure to wholesale purchases and hydro
4 variability, about 70 percent of PacifiCorp's 2005
5 energy requirements came from coal, 21 from
6 purchases, 21 percent, five percent from hydro. So
7 it would be in that sentence?

8 A. Well, and they do mention purchased power
9 adjustment mechanisms in the next line below that.

10 Q. Okay.

11 A. Certainly that's the area I would focus on.

12 Q. Turn back to page nine of your testimony,
13 please. This gets to the discussion of -- you
14 criticize Mr. Elgin for his use of pre-tax interest
15 coverage, do you not, and you stated on the record
16 that that's no longer currently used by Standard and
17 Poor's?

18 A. It's not used for utility companies, yes,
19 that's right.

20 Q. Is it used by Fitch or Moody's or any of the
21 ratings agencies?

22 A. Moody's has published now some rating
23 criteria that are cash flow based, like the FFO
24 coverages from S&P. I'm not familiar enough with
25 Fitch to know if they have or not. And I don't know

0191

1 for sure if they specifically stated that they don't
2 use EBIT coverage, as S&P did state.

3 Q. So you don't know?

4 A. I don't really know the details of that.

5 Q. And then you propose these three financial
6 metrics that you say should be used instead of the
7 pre-taxed interest coverage that Mr. Elgin uses;
8 correct? Funds from -- funds from operations to
9 total debt, FFO interest coverage, total debt to
10 total capital?

11 A. Yes, sir.

12 Q. Did you, for the purpose of this testimony,
13 did you specifically run? Is that incorporated in
14 Exhibit 53, what would be the case if you actually
15 ran these numbers for PacifiCorp's rate case with and
16 without a PCAM, or did you just focus on your
17 critique of Mr. Elgin's analysis of this?

18 A. We did the Staff's case initially with no
19 adverse power cost. That is, you know, everything
20 balanced out, the zero power cost adjustment. And
21 then we did the Staff's PCAM recommendation to
22 evaluate with certain levels of excess power costs
23 what these ratios would turn out to be. And that's
24 why we demonstrated that Mr. Elgin's recommendation,
25 the 42 percent equity ratio along with the Staff's

0192

1 PCAM, would result in bond ratings in the triple B to
2 as low as double B range, as far as the metrics were
3 concerned.

4 Q. Okay. My last question concerns Mr.
5 Gorman's testimony and your critique of that on page
6 -- could you turn to page 13? At the bottom, you say
7 he provides no -- this relates to Mr. Gorman's use of
8 the bond yield spread between an A and a triple B
9 rated utility; correct?

10 A. Yes, sir.

11 Q. And that's the basis of his 30 basis point
12 adjustment that he proposes in this case; correct?

13 A. Yes, sir.

14 Q. And then you go on to say he provides no
15 analysis whatsoever to support this contention. What
16 sort of analysis would be appropriate for this record
17 if -- and are you aware of any other jurisdictions
18 that use a bond yield spread to account for power
19 cost volatility in a PCA? Let me ask that question
20 first.

21 A. I'm not.

22 Q. Okay. What sort of analysis would be
23 appropriate for the record?

24 A. If there were a large enough sample of
25 publicly-traded companies that didn't have PCAMs,

0193

1 then one might do an analysis and average the results
2 of the various models and see if that factor was big
3 enough in the whole scheme of things to indicate a
4 difference. I think before this Commission, in much
5 earlier cases, there was an attempt to do that and
6 the Commission determined that it was too difficult
7 to do.

8 Now there are very, very few companies that
9 don't have forms of purchased power and fuel cost
10 recovery clauses, so there is no sample that I'm
11 aware of that would be big enough to make that test.

12 Q. So it's your conclusion that, because of the
13 frequent or the frequent use of PCAMs in many
14 jurisdictions across the country, from an economic
15 standpoint, you couldn't get a large enough sample to
16 run an accurate analysis here?

17 A. Yes.

18 COMMISSIONER JONES: That's all I have.

19 JUDGE MOSS: Any redirect?

20 MR. VAN NOSTRAND: Just a couple questions,

21 Your Honor.

22

23 R E D I R E C T E X A M I N A T I O N

24 BY MR. VAN NOSTRAND:

25 Q. Dr. Hadaway, could you turn to Exhibit 53,

0194

1 which is your Exhibit SCH-3, page one?

2 A. Yes, sir.

3 Q. I want to make sure we're on the same page
4 in terms of the design of the Staff-proposed PCAM.

5 What is the dead band at which no costs are shared
6 with customers?

7 A. Four million dollars.

8 Q. And the next sharing band is how wide?

9 A. Four million to \$10 million.

10 Q. And what's the sharing percentage for that
11 band?

12 A. Fifty percent.

13 Q. And above \$10 million, what's the sharing
14 percentage?

15 A. Ten percent and 90 percent.

16 Q. So how much power cost variation would the
17 Company have to absorb before it reaches the 90
18 percent sharing band under this proposal?

19 A. Looks like about \$9 million.

20 Q. Isn't it four million and 50 percent of six
21 million?

22 A. Yes, that's right. I'm sorry, I took half
23 of the ten million, but it already has the four
24 million entirely absorbed by the company and then
25 half of the difference between four and ten, so it

0195

1 would be seven million that the Company would absorb.

2 Q. Okay. There was some mention of Avista and
3 PSE not being included in your sample group of
4 companies. Could you describe how those companies
5 were excluded under your screening criteria?

6 A. In at least part of the time period, the
7 lack of dividends, dividends paid, you have to have a
8 dividend record to be able to do the DCF analysis,
9 and also differences in their bond ratings.

10 MR. VAN NOSTRAND: Thank you. I have no
11 further questions, Your Honor.

12 MR. TROTTER: I just have one follow-up of
13 one of Commissioner Jones' questions.

14

15 R E C R O S S - E X A M I N A T I O N

16 BY MR. TROTTER:

17 Q. You're aware that this Commission's policy
18 is, and it was in the last order, quote, Ratepayers
19 should receive the benefit of a reduction in cost of
20 capital, as a power cost adjustment introduces rate
21 instability for ratepayers and earnings stability for
22 stockholders, unquote?

23 A. Mr. Trotter, I've reviewed the cases and
24 I've tried to -- the Commission has said that
25 sentiment in various ways, and so I wouldn't focus on

0196

1 just one statement like that.

2 Q. Okay. Fine. You were asked a question by
3 Commissioner Jones about what other commissions do to
4 address power cost variation via a cost of capital
5 analysis. Do you recall that question?

6 A. Yes.

7 Q. Which of those other commissions that you
8 had in mind when you responded had the same policy as
9 this Commission of the sort I just quoted?

10 A. I don't know of another commission that has
11 exactly that same policy. Certainly in Wisconsin
12 they have dead bands and they have sharing
13 mechanisms. I haven't done a case in Wisconsin to
14 know if they discussed that specific principle the
15 same way as this Commission.

16 MR. TROTTER: Thank you. That's all I have.

17 JUDGE MOSS: Thank you, Dr. Hadaway. We
18 appreciate you being here today and hearing your
19 testimony. You may step down.

20 THE WITNESS: Thank you.

21 JUDGE MOSS: The next witness on our list is
22 Evans, and Ms. Davison, you have indicated 30
23 minutes. Can you complete your cross in that time
24 frame?

25 MS. DAVISON: Sooner.

0197

1 JUDGE MOSS: I'm encouraged by your remark,
2 so let's have Mr. Evans on the stand.

3 Whereupon,

4 STEVEN R. EVANS,
5 having been first duly sworn by Judge Moss, was
6 called as a witness herein and was examined and
7 testified as follows:

8 JUDGE MOSS: Thank you. Please be seated.

9

10 D I R E C T E X A M I N A T I O N

11 BY MR. VAN NOSTRAND:

12 Q. Mr. Evans, can you state your name and spell
13 it for the record, please?

14 A. My name is Steven R. Evans, S-t-e-v-e-n R.
15 E-v-a-n-s.

16 Q. Did you have occasion to prepare rebuttal
17 testimony in this proceeding?

18 A. Yes, I did.

19 Q. And would that be --

20 JUDGE MOSS: It's 21, Counsel.

21 MR. VAN NOSTRAND: Thank you.

22 Q. Do you recognize that document as what's
23 been marked for identification as Exhibit 21?

24 A. Yes, I do.

25 Q. Do you have any additions or corrections to

0198

1 make to Exhibit 21?

2 A. No, I do not.

3 Q. If I asked you the questions set forth in
4 Exhibit 21 today, would your answers be the same as
5 in that document?

6 A. Yes, they would.

7 MR. VAN NOSTRAND: Thank you, Mr. Evans.
8 Your Honor, I move the admission of Exhibit 21, and
9 Mr. Evans is available for cross-examination.

10 JUDGE MOSS: You're not going to move 22?

11 MR. VAN NOSTRAND: That's Ms. Davison's
12 exhibit.

13 JUDGE MOSS: Oh, that's a cross exhibit.
14 Sorry. That's been admitted by stipulation. All
15 right. Very well. Ms. Davison, proceed.

16 MS. DAVISON: Thank you, Your Honor.

17

18 C R O S S - E X A M I N A T I O N

19 BY MS. DAVISON:

20 Q. Good morning, Mr. Evans.

21 A. Good morning.

22 Q. Could you please turn to your rebuttal
23 testimony, Exhibit 21, at page three, lines 13
24 through 20?

25 A. I have that.

0199

1 Q. Does your rebuttal testimony criticize Mr.
2 Gorman for proposing a consolidated tax adjustment
3 for MEHC and for not, quote, moving up the affiliate
4 corporate structure, end of quote?

5 A. This particular point made in my testimony
6 is to Mr. Gorman's point that he looked just up to a
7 second-tier parent subsidiary and yet the theme of
8 his -- much of his testimony dealt with payments to
9 government officials, taxing authorities, ultimate
10 payments, so this point here is made that perhaps he
11 does not have the complete vision of where that
12 ultimate taxpayer is and the many attributes and
13 issues that go with that.

14 In fact, I believe he, in his brief
15 testimony, notes around 12 times a reference to taxes
16 paid, ultimately paid, and so this point merely is
17 directed to expand his vision that he should be
18 considering the ultimate taxpayer.

19 Q. Mr. Evans, could I take from that that your
20 answer was yes?

21 A. Could you restate the question, being as I'm
22 not sure it was posed exactly that I would answer
23 yes? Could you please restate your question?

24 Q. Does your rebuttal testimony criticize Mr.
25 Gorman for proposed -- for proposing a consolidated

0200

1 tax adjustment for MEHC without moving up the
2 affiliate corporate structure?

3 A. Okay. Short answer, yes.

4 Q. Thank you. Are you suggesting that Mr.
5 Gorman should have performed a tax adjustment based
6 on the Berkshire consolidated tax return?

7 A. I'm suggesting that if he were to be
8 considering -- if this method were to be considered,
9 then yes, it should look at the ultimate taxpayer, as
10 indeed he indicates, but stops short due to apparent
11 complexity -- more than apparent; it is very complex.

12 Q. Have you performed that adjustment yourself,
13 moving up the corporate structure?

14 A. In responding to the points and trying to
15 understand the methodology, the approach which Mr.
16 Gorman is undertaking, I took that vision to that --
17 the highest level, I suppose, with respect to the
18 ultimate taxpayer, Berkshire Hathaway, Incorporated,
19 and its subsidiaries. An actual computation, I did
20 not perform.

21 I did note very substantial and large
22 amounts of taxes paid, of other financial situations
23 and attributes which precluded me from having to make
24 any further adjustment.

25 I believe, to my understanding of his

0201

1 approach, that had he looked to that ultimate
2 taxpayer, the tax attributes, the financial
3 attributes, that his adjustment, even his own
4 methodology, would have been zero. Therefore, I saw
5 no need for my own computation.

6 Q. So are you aware of what Mr. Gorman's tax
7 adjustment is in this case?

8 A. Yes. This particular adjustment is a bit
9 imputed. I believe Dr. Hadaway --

10 Q. I'm sorry, just to speed things up, I meant
11 the dollar amount.

12 A. Oh, the dollar amount, I'm sorry. He
13 arrives at a tax figure just north of 1.9 million, a
14 revenue requirement of three million.

15 Q. Thank you. So in your testimony you talk a
16 little bit about regulatory policy. Do you agree
17 that rates should be based on the utility's
18 prudently-incurred costs?

19 A. I do. I think that is a fundamental premise
20 of this body and any other body setting rates.

21 Q. Is it correct that rates are based on a
22 representative test period, which is adjusted to
23 normalize costs and remove unusual events?

24 A. That is a common approach, yes.

25 Q. And generally costs that are not incurred by

0202

1 the utility are not passed on to ratepayers, is that
2 generally correct?

3 A. That is generally correct.

4 Q. Are you aware of any mathematical errors in
5 Mr. Gorman's approach? And I understand you don't
6 agree with it, but I'm simply focusing your question
7 on mathematical errors.

8 A. The arithmetic seems appropriate, yes.

9 Q. On page nine, lines three through eight of
10 your rebuttal testimony, Exhibit 21, you discuss how
11 PacifiCorp prepares its tax computation; is that
12 correct?

13 A. Page nine, lines -- which, again, please?

14 Q. Three through eight.

15 A. It does address that in part, also
16 addressing how the government then reviews it, in
17 part.

18 Q. And it's correct that PacifiCorp's taxable
19 income is part of this consolidated filing?

20 A. Very much so. That's correct.

21 Q. And it's correct that PacifiCorp does not
22 file its income taxes on a stand-alone basis;
23 correct?

24 A. That is correct.

25 Q. Sitting here today, do you know how much

0203

1 PacifiCorp would pay to Washington taxing authorities
2 for 2006?

3 A. For 2006, I think their taxable income --
4 again, this is interesting, because the 2006 return
5 has the complexity of being three months within
6 Scottish Power Holdings, Inc. and nine months,
7 roughly, within Berkshire Hathaway. The nine-month
8 part of that return has not been prepared yet.

9 There are estimates of several hundred
10 million dollars of taxable income and the taxes
11 applied to that offset by various credits and so on.
12 Other things bearing on that would be ultimately how
13 various matters pending now before the IRS turn out
14 for earlier years and how they affect -- bottom line,
15 I don't have a real number yet, but it's a large
16 number.

17 Q. Your testimony addresses the ring-fencing
18 provisions that were put in place following the MEHC
19 acquisition of PacifiCorp. At page 14, lines nine
20 through 20 of your rebuttal testimony, you
21 specifically address and quote Merger Commitment
22 Number 11. Do you see that?

23 A. I do.

24 Q. Does this merger commitment contain any
25 language that bars the Commission from adopting Mr.

0204

1 Gorman's tax adjustment?

2 A. That's for the Commission to decide. In my
3 opinion, the ring-fencing provisions that are -- have
4 been described as state of the art are there to be
5 upheld. I believe that his proposal would do
6 something other than uphold and maintain those
7 ring-fencing provisions.

8 Q. Also on page nine of your testimony, lines
9 11 through 14, do you know the percent of Berkshire's
10 total tax liability that PacifiCorp bears?

11 A. Is this tax liability within the context of
12 the tax return or within the context of tax expense,
13 which -- and there's a difference, because deferred's
14 entered in -- what's the context of your question,
15 please?

16 Q. The tax return.

17 A. Tax return. Warren Buffett, in his letter
18 to shareholders, indicated that Berkshire's estimates
19 for 2006 were \$4.4 billion of taxes paid, that's
20 billion with a B, to the federal government.
21 PacifiCorp is a portion of that. If they had several
22 hundred million dollars of taxable income, then it's
23 going to be roughly 30 -- well, the federal, 35
24 percent, roughly, of the taxable income would become
25 part of this ultimate \$4.4 billion tax payment that

0205

1 Berkshire makes to the federal government. So it's
2 there and it's there in full.

3 Q. Does MEHC have debt?

4 A. MEHC does have debt.

5 MS. DAVISON: Thank you. I have no further
6 questions.

7 JUDGE MOSS: Thank you. Anything from the
8 Bench? Any redirect?

9 MR. VAN NOSTRAND: No, Your Honor.

10 JUDGE MOSS: All right. Well, thank you for
11 being here today. We appreciate your testimony. You
12 may step down, Mr. Evans.

13 And let me see. Well, it appears that we
14 have 65 minutes of cross indicated for Mr. Widmer,
15 who is our next witness, so I would -- I would
16 propose, then, that we put him on the stand and
17 proceed. Please raise your right hand.

18 Whereupon,

19 MARK WIDMER,
20 having been first duly sworn by Judge Moss, was
21 called as a witness herein and was examined and
22 testified as follows:

23 JUDGE MOSS: Thank you. Please be seated.

24

25 DIRECT EXAMINATION

0206

1 BY MR. VAN NOSTRAND:

2 Q. Mr. Widmer, can you state your name and
3 spell it for the record, please?

4 A. Yes, my name is Mark Widmer, that's M-a-r-k
5 W-i-d-m-e-r.

6 Q. And have you prepared pre-filed direct and
7 rebuttal testimony in this case?

8 A. Yes, I have.

9 Q. Do you recognize Exhibits 81 and 88 as your
10 pre-filed direct and rebuttal testimony?

11 A. I do.

12 Q. Do you have any additions or corrections to
13 make to that testimony, other than the revised pages
14 which were filed with the Commission earlier?

15 A. I do not.

16 Q. You also prepared and filed with the
17 Commission Exhibits 82 through 87 and 88 and 89
18 through 91 as the exhibits accompanying your direct
19 and rebuttal testimony?

20 A. Yes, I did.

21 Q. Do you have any additions or corrections to
22 make to those exhibits?

23 A. I do not.

24 Q. Are they true and correct, to the best of
25 your knowledge?

0207

1 A. Yes.

2 MR. VAN NOSTRAND: Your Honor, I'd move the
3 admission of Exhibits 81 through 91, and Mr. Widmer's
4 available for cross-examination.

5 JUDGE MOSS: All right. Hearing no
6 objection, those will be admitted as marked, and Mr.
7 Trotter, you have five minutes for this witness?

8 MR. TROTTER: I hope so.

9

10 C R O S S - E X A M I N A T I O N

11 BY MR. TROTTER:

12 Q. Mr. Widmer, good morning.

13 A. Good morning.

14 Q. Could you turn to Exhibit 88, your rebuttal,
15 page four, beginning on line 14? And here you
16 address Staff Witness Mr. Buckley's proposed water
17 year adjustment in which he removes certain -- what
18 you call outlier, unquote, water years from base
19 level net power costs; is that right?

20 A. That's correct.

21 Q. And he used a one standard deviation filter
22 to remove water years; is that right?

23 A. He did.

24 Q. Now, the principal difference between your
25 approach and Staff's is that you made an attempt to

0208

1 balance the actual number of years or data points
2 that were excluded using that one deviation, one
3 standard deviation filter, while Mr. Buckley simply
4 eliminated all years that were outside that one
5 standard deviation?

6 A. That's correct. In Mr. Buckley's proposed
7 adjustment, he used the mean to define the central
8 tendency, which assumes a normal distribution of
9 probabilities. The problem with his one standard
10 deviation adjustment, which occurs after that, is
11 that it changes the distribution of the remaining
12 water year data that's left behind so that it is no
13 longer a normal distribution.

14 The appropriate way to make a type of
15 adjustment would be to use the Company's proposed
16 method, which is a rank percentile approach, which,
17 after adjustment, still maintains a normal
18 distribution for the remaining water year data, which
19 would be used to calculate base rate net power cost.

20 Q. So what judgment did you apply to select the
21 water years to include or exclude under the one
22 standard deviation filter?

23 A. Mr. Buckley's method or my method?

24 Q. Your own?

25 A. In the method we proposed in the rank

0209

1 percentile approach, standard deviation is defined as
2 87 percent. And so we removed water years above the
3 83.5 percent percentile and water years below the
4 16.5 percent percentile.

5 Q. And your adjustment results in base rates
6 being approximately 0.6 million lower, while Mr.
7 Buckley's adjustments -- adjustment results in base
8 rates being about 1.5 million lower; is that right?

9 A. That's correct.

10 Q. Now, turning to the design of the PCAM, the
11 outer band for both Staff and Company PCAMs have
12 90/10 sharing, is that right, 90 percent to
13 customers, 10 percent to the Company?

14 A. Yes.

15 Q. And under the Company's proposal, that
16 sharing band starts at 7.4 million, and under Staff,
17 it's 10 million?

18 A. That's correct.

19 MR. TROTTER: That's all I have, Your Honor.

20 JUDGE MOSS: Thank you, Mr. Trotter. Ms.
21 Davison, I think you had some cross for this witness,
22 didn't you?

23 MS. DAVISON: Mr. Sanger.

24 MR. SANGER: Your Honor, I'll be conducting
25 the cross.

0210

1 JUDGE MOSS: Mr. Sanger, looks like 30
2 minutes.

3 MR. SANGER: I think we can get done a lot
4 quicker than that, depending on Mr. Widmer's answers.

5 JUDGE MOSS: Shoot for 10.

6

7 C R O S S - E X A M I N A T I O N

8 BY MR. SANGER:

9 Q. My first question, Mr. Widmer, is whether
10 the Company's West Control Area methodology includes
11 an interconnection adjustment related to the benefits
12 the West Control Area provides to PacifiCorp's
13 Eastern Control Area?

14 A. No, the filed methodology that the Company
15 used in the case was designed specifically to meet
16 the requirements of the Commission order in the '05
17 case, which did not allow a system dispatch of the
18 Company's cost in order to determine an integration
19 benefit between the two divisions.

20 As a result of that, we devised the WCA
21 methodology, which only looks at transactions that
22 occur within the control area, because we were not
23 able, as a result of that order, to define benefits
24 associated with integration.

25 Q. Now, would you agree that in past

0211

1 multi-state proceedings, PacifiCorp has claimed that
2 there were system-wide interconnection benefits?

3 A. Under revised protocol, the Company does
4 believe there are system benefits. However, that was
5 rejected by the Commission.

6 Q. Well, not directly at revised protocol, but
7 at actual interconnection benefits to the Company
8 regardless of cost allocation methodology?

9 A. There are only benefits through a system
10 integration. There are not any benefits associated
11 with the stand-alone WCA and a stand-alone pace
12 control area.

13 MR. SANGER: I have no further questions,
14 Your Honor.

15 JUDGE MOSS: Good job, Mr. Sanger. All
16 right. Let's see if Mr. ffitch can do as well for
17 us.

18 MR. FFITCH: I cannot, Your Honor.

19 JUDGE MOSS: Well, at least you're up front.

20 MR. FFITCH: I'll try and make it in 30
21 minutes.

22 JUDGE MOSS: Mr. ffitch, I think, in light
23 of your comment, we will go ahead and take our recess
24 and give you an opportunity to hone your
25 cross-examination during the luncheon recess, and so

0212

1 we'll be back at 1:30.

2 MR. FFITCH: Your Honor?

3 JUDGE MOSS: Off the record?

4 MR. FFITCH: Off the record.

5 (Lunch recess taken.)

6 JUDGE MOSS: Let's be on the record.

7 MR. FFITCH: Thank you, Your Honor.

8

9 C R O S S - E X A M I N A T I O N

10 BY MR. FFITCH:

11 Q. Good afternoon, Mr. Widmer.

12 A. Good afternoon.

13 Q. Simon ffitch, with the Public Counsel
14 Office. Could you please turn to Exhibit 81? That's
15 your direct testimony, page 28. And do you have
16 that?

17 A. I do.

18 Q. And at lines eight and nine, you state that
19 the Company's proposed PCAM is very similar to
20 Avista's; correct?

21 A. I did.

22 Q. Now, can you turn to page 30, please, of
23 that same exhibit? And do you have that?

24 A. I do.

25 Q. At the beginning at line two, you state that

0213

1 the Company proposes to develop actual costs by
2 updating authorized net power costs for data inputs
3 consistent with the Commission directive and
4 re-running grid to develop adjusted actual cost;
5 correct?

6 A. That's correct.

7 Q. The Commission has not approved a PCAM based
8 on the use of a computer model to derive actual
9 costs, has it, in any other case?

10 A. I'm not aware that it's been an issue, no.

11 Q. Now, in the Commission's last PacifiCorp
12 order, the Commission describes a PCA mechanism as a
13 short-run accounting procedure, does it not?

14 A. Yes, they describe it as a mechanism that
15 would capture the cost variances associated with
16 things like weather, hydro, and other short-run cost
17 variances.

18 Q. All right. And they do specifically refer
19 to it as a short-run accounting procedure, do they
20 not?

21 A. I believe that's the case.

22 Q. And when the Commission says short-run
23 accounting procedure, do you believe the Commission
24 meant to include computer model generated costs?

25 A. I have no idea whether the Commission

0214

1 contemplated that or did not contemplate that.

2 Q. All right. Could you please go to page 27
3 of your same exhibit, Exhibit 81, to line two? And
4 there you state -- do you have that?

5 A. I do.

6 Q. There you state, for the the test period,
7 normalized hydro generation produces 17.9 percent of
8 the Company's West Control Area load requirement, do
9 you not?

10 A. I do.

11 Q. And you haven't updated or amended that
12 figure, have you?

13 A. I have not.

14 Q. Now, you don't dispute this percentage is
15 lower than the hydro percentage of either Avista or
16 Puget Sound Energy, do you?

17 A. I do not dispute that, no.

18 Q. Mr. Widmer, is it your position that any
19 regulated electric utility in Washington should be
20 authorized to have a PCA under any circumstances, no
21 matter what its power cost risk position?

22 A. Well, I think the Commission, through the
23 adoption of power cost adjustment mechanisms for both
24 Avista and Puget Sound Energy, basically decided that
25 power cost mechanisms that flow through the

0215

1 volatility of those power costs in part to customers
2 is in the public interest. So yes, I think they
3 have.

4 Q. So your answer is yes, any electric utility
5 in Washington, no matter what the circumstances, no
6 matter what its power cost risk position, should have
7 a power cost adjustment mechanism?

8 A. I think that's only reasonable.

9 Q. And your Company's position in this case is
10 that that should be without an adjustment to the
11 return on equity; correct?

12 A. That's correct.

13 Q. Could you go to page 28, please, of your
14 testimony, Exhibit 81? And starting at line one, you
15 say, However, it is worth noting that the expected
16 level of volatility is quite high over a substantial
17 portion of this period, which demonstrates the need
18 for a PCAM to capture the impact of this volatility;
19 correct?

20 A. Yes.

21 Q. And when you say this period, you're looking
22 out a number of years into the future?

23 A. I'm looking in the future, yes.

24 Q. All right. And then the testimony here
25 refers us to your Exhibit 6, which is Exhibit 86 for

0216

1 this record; correct?

2 A. Yes.

3 Q. And could you turn to that, please?

4 A. Mm-hmm.

5 Q. And that is an exhibit titled Forecast
6 Average Market Prices, July 2006 through December
7 2017; correct?

8 A. Yes, it is.

9 Q. And let's look at the variations shown on
10 this graph. We can see a certain pattern in the
11 movement of the prices, can we not?

12 A. Yes.

13 Q. Do you agree with that?

14 A. Mm-hmm.

15 MR. FFITCH: And along the bottom of the
16 graph, we see that -- and actually, I'm going to just
17 remind Your Honor, for the record, there has been a
18 revision to this exhibit, and I'm referring to the
19 revised copy, which shows the months and years along
20 the bottom.

21 JUDGE MOSS: We all have that.

22 Q. A little bit easier to read. The scale
23 along the bottom goes January, July, January. That's
24 the time cycle for -- is it not?

25 A. Yes, it shows the two peak periods during

0217

1 each year.

2 Q. Okay. So you're kind of anticipating where
3 I'm going. If we look at January '08, for example,
4 if we start there, at the bottom of the cycle, it's
5 -- we're entering into the spring runoff period;
6 correct?

7 A. In January '08?

8 Q. Right. Or alternatively, we're still in the
9 winter peak. It's a little hard to --

10 A. Yeah, spring runoff generally starts April,
11 May, roughly.

12 Q. Okay. So January, we're in the winter peak,
13 then; correct?

14 A. Yes.

15 Q. And then we move into the spring runoff
16 period, where we see the line drop; correct?

17 A. That's part of the reason for the drop.
18 It's not the entire reason for the drop.

19 Q. Okay. What's the other reason?

20 A. Part of it's just based upon the
21 expectations of the resources and the fuel type of
22 resources that are going to be on the margin during
23 those times of year.

24 Q. All right. Then we move to a summer peak
25 after that spring drop, do we not?

0218

1 A. We do.

2 Q. And then it drops again into the fall
3 period, the fall doldrums, if you will; correct?

4 A. Yes.

5 Q. And that pattern repeats itself in each of
6 these annual cycles, does it not, on this chart?

7 A. Yes, it does.

8 Q. And out through -- at least through 2012,
9 it's essentially an identical pattern, is it not?

10 A. With variation for the depth of the
11 variation, yeah.

12 Q. All right. But even there, as a matter of
13 fact, the width of the range through from '07 through
14 2012 is roughly equivalent, is it not?

15 A. Would you repeat that question?

16 Q. The width of the range, from the highest
17 price to the lowest price, remains roughly the same
18 between 2007 and 2012, does it not?

19 A. Roughly.

20 Q. And it's trending down?

21 A. Mm-hmm, yes.

22 Q. And this is a seasonal variation, is it not,
23 that we've just described?

24 A. It is a seasonal variation, but it also
25 shows or demonstrates how much power prices can vary

0219

1 during the year, and it's this variance in prices
2 that we experience that can have a significant impact
3 on a company's net power cost volatility. Whether
4 they occur on a seasonal basis or whether it's
5 something other than seasonal basis, it still
6 demonstrates that there's significant change in
7 market prices for electricity.

8 In other words, if you had a thermal plant
9 outage during a season which had higher market
10 prices, it would produce a significant amount of
11 volatility for the Company's power costs because the
12 thermal units have such a low variable cost. On the
13 other hand, if the outage occurred during a spring
14 period or a shoulder period, the volatility wouldn't
15 be that great, but it's the difference between the
16 highs and lows that demonstrates the volatility of
17 power costs based upon things that could happen in
18 the operation of a utility system.

19 Q. All right. Can you turn now to Exhibit 85,
20 which is your immediately preceding exhibit, MTW-5?
21 Have that?

22 A. I do.

23 Q. I'll have it in a moment. All right.
24 That's a backward-looking graph of prices; correct?

25 A. That's a historical look, yes.

0220

1 Q. All right. Going back to January 1998. And
2 we see two spikes, essentially, on this graph, do we
3 not?

4 A. Yes.

5 Q. Would you accept that the spike for winter
6 2000-2001 is related to the Western power crisis,
7 that time period that we're all painfully familiar
8 with?

9 A. I would, and I would also mention that
10 because of the size of the power crisis spike, it had
11 kind of a dulling effect on the volatility in the
12 other time periods included on the graph. If you
13 didn't have such an extreme level of volatility
14 during the power crisis, the other portions of the
15 graph period would show more volatility.

16 Q. And the second spike is winter 2005, is it
17 not, 2005-2006?

18 A. Yes.

19 Q. And that's related to the impact of
20 Hurricanes Katrina and Rita on the power costs;
21 correct?

22 A. I think that's the case. I'd have to double
23 check.

24 Q. Subject to your comment about the dulling
25 effect, other than these two events, the graph shows

0221

1 a much lower degree of volatility, doesn't it?

2 A. It does, but I would also point out that if
3 you extended the graph a little bit further out to
4 the summer of 2006, when the region experienced
5 extremely hot weather, we saw prices that approached
6 190 to \$200 a megawatt hour, which would, again, be
7 another level of extreme volatility within our
8 region.

9 Q. Okay. You didn't update this exhibit to
10 show that, did you?

11 A. We did not.

12 Q. Can you please go to Exhibit 100, which is
13 one of your cross exhibits? That's a response to
14 Data Request Number Seven from Public Counsel. Kind
15 of brings us back around to the testimony where we
16 started and asks you essentially what you meant by
17 the expected level of volatility looking out into the
18 future. And we asked you to provide a numerical
19 value, if the Company had one, including the
20 dimensional units and work papers used to derive the
21 volatility; correct?

22 A. Yes, and we responded that we hadn't come up
23 with a calculation of the expected level of
24 volatility, and the reason we haven't is because we
25 really don't know what's going to happen in the

0222

1 future. One of the benefits of having a PCAM is that
2 it protects utilities and customers from the
3 volatility that will inevitably come; we just don't
4 know when and to what degree it will be there.

5 Q. Well, let's get to that in a second, but
6 just finishing up with this exhibit, it states, does
7 it not, that the Company's actually not making a
8 claim about the specific level of forward volatility
9 at all; correct?

10 A. We haven't put our finger on a specific
11 number, no, but it is extensive. We -- I have a
12 table within my direct filed testimony that
13 demonstrates that the potential volatility of good to
14 bad hydro years could be as much as 200 and I think
15 15 million, and that figure doesn't even assume
16 market price spikes relative to, you know, events
17 such as poor water conditions, so the number could be
18 bigger.

19 And the point of all this is just to say
20 that there is a significant possibility of extreme
21 volatility for our company.

22 Q. And the support that you provided for this
23 statement in response to this DR is to refer us to
24 these two graphs that we just looked at. Those are
25 the two specific references that you give us here;

0223

1 correct?

2 A. We did.

3 Q. Now, you also just mentioned the notion that
4 the PCA provides protection for customers. Isn't it
5 true that essentially what the PCA does is create new
6 risk for customers of paying increased rates, and
7 that under the current system, that risk simply does
8 not exist, isn't that true, until the Company files a
9 general rate case or some other form of request for
10 rate relief?

11 A. Could you re -- do that question again?

12 Q. Specifically what is the meaning of the term
13 protection for consumers that you intend when you
14 describe the PCA as providing protection for
15 ratepayers?

16 A. Well, I think one of the things that the PCA
17 mechanism does for ratepayers is that it provides the
18 utility an incentive to keep costs as low as
19 possible. Also, in the event that power costs come
20 in below the level that's included in rates, the
21 Company will pass back some of those benefits to
22 customers.

23 On the other hand, under normalized
24 regulation, if we have a year where the Company's
25 actual power costs come in significantly below what's

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1 in rates, the customers don't see any of that
2 benefit. On top of that, one other benefit of having
3 a PCAM mechanism is to provide the utility a better
4 opportunity to recover more of its costs, which in
5 turn makes it more likely that you'll have a
6 financially healthy utility that will be able to
7 provide customers the electric service they need on a
8 reliable basis.

9 MR. FFITCH: Those are all the questions I
10 have for this witness, Your Honor.

11 JUDGE MOSS: Thank you, Mr. ffitich. And I
12 believe that brings us, then, to the Bench.
13 Chairman Sidran.

14

15 E X A M I N A T I O N

16 BY CHAIRMAN SIDRAN:

17 Q. Good afternoon.

18 A. Good afternoon.

19 Q. I just want to clarify my understanding of
20 your testimony. Let's see. I guess this is your
21 rebuttal testimony, Exhibit 88, at page 43, starting
22 with the paragraph at line 12. And there you sort of
23 sum up the Company's view of Staff's recommendations
24 regarding this power cost adjustment mechanism. And
25 at the end of your answer that begins at line 12, you

0225

1 say, In addition, the water year adjustment must be
2 modified and PacifiCorp must be permitted recovery of
3 resource cost through a power cost only type
4 mechanism for the PCAM to be acceptable.

5 A. That's right.

6 Q. So just so I'm clear, the Company's position
7 is that if there were to be a PCAM arrived at in the
8 course of this case, there must also be a power cost
9 only type mechanism, or so-called PCORC, P-C-O-R-C,
10 as well?

11 A. Well, now, basically the Company is
12 providing the Commission its view on what it needs in
13 order to be treated fairly in terms of regulatory
14 recovery going forward. Clearly, we think a PCAM is
15 appropriate given the Commission decision that it's
16 appropriate for other utilities within the state.

17 In addition to that, and particularly with
18 the recent advent of the new RPS standards, it's
19 become more and more important for the Company to
20 have some form of PCORC, or power cost only
21 mechanism, so that we can provide a proper matching
22 of the costs and benefits of these new resources
23 we're going to be required to build or acquire.

24 Q. So how should we approach a PCORC-type
25 mechanism in this case when that issue really has not

0226

1 been developed by the Company or the parties?

2 A. All we're really asking for is for the
3 Commission to provide the Company approval to file
4 for a mechanism out of this proceeding. Whether or
5 not it ultimately gets adopted would be up to the
6 Commission, but we would like to have approval to be
7 able to file for a mechanism.

8 Q. So when you say here that the Company must
9 be permitted a power cost only type mechanism for the
10 PCAM to be acceptable, if we were to accept, for the
11 sake of argument, Staff's recommendation that the
12 fixed cost element of the Company's proposed PCAM be
13 excluded, if we accepted that recommendation, would
14 the Company accept, understanding your other
15 reservations in this paragraph, but hypothetically,
16 would the Company accept a PCAM with fixed costs
17 excluded and simply an acknowledgement that the
18 Company, if it chooses, can file a separate
19 proceeding seeking a PCORC-type mechanism?

20 A. I believe we would. However, that should
21 probably be asked of Ms. Kelly.

22 CHAIRMAN SIDRAN: All right. Thank you.
23 That's all I have.

24 JUDGE MOSS: Commissioner Jones.

25

0227

1 E X A M I N A T I O N

2 BY COMMISSIONER JONES:

3 Q. I've just got a couple. Could you define
4 for the record what pseudo-actual results mean? It's
5 a new term in the English language. I've read your
6 testimony, I think I know what it means, and that is
7 because the WCA is not -- it's really a fiction in
8 the sense that it's a simulated model to try to
9 incorporate what loads and resources would be in a
10 three-state in a certain control area; correct?

11 A. That's correct.

12 Q. And you are still asserting that the Company
13 does not -- the Company will continue to dispense
14 resources on an integrated basis for the benefit of
15 all your customers; correct?

16 A. Yes, we count and operate our system on an
17 integrated basis.

18 Q. So just define what pseudo-actual is.

19 A. Pseudo basically means that a large portion
20 of the information we will use to develop the
21 pseudo-actual results is actual results already, but
22 since we will be required or it will be necessary to
23 do a re-dispatch of the system because we don't have
24 a complete match of loads and resources for the WCA,
25 we're then calling it pseudo-actual results, because

0228

1 of the re-dispatch step in order to get the results
2 we need.

3 Q. So really, the key characteristic is not a
4 simulated run; it's the re-dispatch of the loads for
5 this Western Control Area?

6 A. It's a re-dispatch of the system and the
7 resources, given the loads in the WCA.

8 Q. Last question. Do you have a rough idea, is
9 there anything in the record in terms of the impact
10 on rates of the WCA of this particular methodology,
11 the Western Control Area methodology, versus the
12 revised protocol?

13 A. I do not.

14 JUDGE MOSS: All right. Then is there any
15 redirect?

16 MR. VAN NOSTRAND: No, Your Honor.

17 JUDGE MOSS: All right. Thank you, Mr.
18 Widmer. We appreciate you being with us today.

19 THE WITNESS: Thank you.

20 JUDGE MOSS: You may step down. I have Mr.
21 Wilson next. Now you may stand up for me, please.

22 Whereupon,

23 ERICH D. WILSON,
24 having been first duly sworn, was called as a witness
25 herein and was examined and testified as follows:

0229

1 JUDGE MOSS: Thank you. Please be seated.

2

3 D I R E C T E X A M I N A T I O N

4 BY MR. VAN NOSTRAND:

5 Q. Good afternoon. Could you state your name
6 for the record, please?

7 A. Erich D. Wilson, E-r-i-c-h D. W-i-l-s-o-n.

8 Q. And what's your position with PacifiCorp?

9 A. I'm currently the director of human
10 resources.

11 Q. And have you filed rebuttal testimony in
12 this proceeding, accompanied by two exhibits?

13 A. I have.

14 Q. Do you recognize Exhibit 121 as your
15 rebuttal testimony?

16 A. I do.

17 Q. Do you have any additions or corrections to
18 make to that document?

19 A. Not at this time, I do not.

20 Q. If I asked you the questions set forth in
21 that document, would your answers be the same today?

22 A. They would.

23 Q. You also have before you Exhibits 122 and
24 123, which accompanied your rebuttal testimony?

25 A. I do.

0230

1 Q. They were prepared under your direction and
2 supervision?

3 A. They were.

4 Q. Do you have any additions or corrections to
5 make to those?

6 A. I do not.

7 MR. VAN NOSTRAND: Your Honor, I'd move the
8 admission of Exhibits 121 through 123, and Mr. Wilson
9 is available for cross-examination.

10 JUDGE MOSS: Those exhibits will be admitted
11 as marked. And Mr. Trotter, you have 15 minutes for
12 this witness, I believe.

13 MR. TROTTER: Yes, Your Honor. Thank you.

14

15 C R O S S - E X A M I N A T I O N

16 BY MR. TROTTER:

17 Q. Good afternoon, Mr. Wilson.

18 A. Good afternoon.

19 Q. I don't know if we've met. I'm Counsel for
20 Commission Staff.

21 A. We have not.

22 Q. Okay. My question was to you today relate
23 to the severance payments the Company paid to
24 employees who were let go as a consequence of the
25 acquisition of PacifiCorp by MEHC, and that's a

0231

1 subject you testified to?

2 A. Yes, it is.

3 Q. Your testimony on that issue is to support
4 the recovery of all severance payments from
5 ratepayers; is that right?

6 A. That is correct.

7 Q. And according to your testimony, you believe
8 that that severance pay is necessary for PacifiCorp
9 to be competitive in hiring and retaining employees;
10 is that right?

11 A. That is correct.

12 Q. Does it follow that you believe the market
13 for utility executives is competitive?

14 A. I do.

15 Q. Turn to page 12 of your Exhibit 121. At
16 line six you say, Senior executives are at a greater
17 risk of termination in the event of a change in
18 control, and that, in part, justifies the severance
19 programs. Do you see that?

20 A. I do.

21 Q. Isn't it true that a salary of a
22 half-million dollars or more already includes
23 sufficient compensation for an executive to take a
24 job that may be terminated in the rare event of a
25 change of control?

0232

1 A. I would not believe that that would be
2 accurate.

3 Q. Let's turn to Exhibit 126, which is
4 confidential, so let's call it 126-C. And as I
5 indicated off the record, I believe I've cleared
6 question areas with Counsel so I don't divulge
7 confidential information that the Company is
8 concerned about, but it's your job to -- not to say
9 anything that would breach confidentiality. If you
10 find yourself in that position, please let us know
11 and we'll try to work a way around it.

12 A. Okay.

13 Q. But do you recognize Exhibit 126-C as the
14 Company's response to Staff Data Request 13?

15 A. I do.

16 Q. And that exhibit contains the plan under
17 which PacifiCorp paid severance compensation to those
18 employees severed as a result of the MEHC acquisition
19 of PacifiCorp?

20 A. Correct, there are two plan documents.
21 There's the executive severance plan that was --
22 executives were identified and subjected to or
23 participated in, and then there was the plan for the
24 broad-based population.

25 Q. Okay. And what we've got here is both of

0233

1 them, is it not?

2 A. It is.

3 Q. Okay. Please turn to page 11 of the
4 exhibit, and the page number's on the upper
5 right-hand corner.

6 A. Just to confirm, the page 11 you have is
7 referenced as page nine on the bottom?

8 Q. Yes.

9 A. Okay. Thank you.

10 Q. Under Article Four of the plan, these are
11 severance benefits; is that right?

12 A. That's correct.

13 Q. And in the first section there, it refers to
14 compensation under Exhibit A or Exhibit B. Which
15 applies in this case for the severance payments at
16 issue here?

17 A. Exhibit B.

18 Q. Okay.

19 A. Which is page 22.

20 Q. Then let's go to that page.

21 A. Okay.

22 Q. And Item Three here on page 22 shows what
23 the severance compensation is based on; correct?

24 A. That is correct.

25 Q. And so it's the annualized base salary,

0234

1 including an incentive -- plus any applicable
2 incentive award, plus the annualized vehicle
3 allowance, if that particular employee had one;
4 correct?

5 A. That is correct.

6 Q. And incentive award, that's another word for
7 bonus?

8 A. Correct.

9 Q. So an executive that has a more expensive
10 car than another employee and who -- provided by the
11 Company, and who also had a higher bonus than someone
12 else, but who had the same salary, would get a higher
13 severance payment?

14 A. Two responses to that. First, relative to
15 the vehicle allowance, that is an actual flat dollar
16 amount that was provided to each executive. It has
17 no bearing on the type of vehicle that they elect to
18 own or drive. It's a flat amount that is provided to
19 them based upon their level in the organization.

20 And the second part, relative to incentive,
21 each position, from an executive level all the way
22 through our non-represented or nonunion employees,
23 participate in an annual incentive plan based on a
24 competitive position relative to the market. So each
25 executive, in theory, could have a different

0235

1 guideline based upon the competitive position that
2 they have in the labor market.

3 Q. Now, back on page 11 of the exhibit, Section
4 4.02 addresses continuation of Group Health benefits;
5 is that right?

6 A. That is correct.

7 Q. And then on the next page, page 12, the
8 issue I want to focus on is 4.03, outplacement
9 benefits, and here the Company offers the executives
10 a minimum of 12 months outplacement benefits. Do you
11 see that?

12 A. I do.

13 Q. And can you just describe what those
14 benefits include?

15 A. Sure. Those benefits consist of an
16 opportunity for the severed executive to meet with a
17 third party outplacement firm to assist them in
18 developing their resume, working through interview
19 questions, modeling an interview process to help
20 position them to find another opportunity in the
21 marketplace.

22 Q. And you say on page 12 of your testimony,
23 line nine, that senior executives are likely to need
24 more time than broad-based -- than the broad-based
25 employee population to get a comparable position with

0236

1 another employer; is that right?

2 A. That is correct.

3 Q. If the market for utility executives is so
4 competitive, why is a minimum of one year's
5 assistance necessary for them to get a job?

6 A. I'm sorry, could you restate the question,
7 please?

8 Q. If the market for utility executives is so
9 competitive, why is a minimum of one full year of
10 assistance necessary to help them find another job if
11 they are severed from PacifiCorp?

12 A. Well, for each executive, it depends on the
13 labor market and it depends on the time. We're at a
14 point right now where positions within the finance
15 sector, as an example, it is a highly competitive
16 market. There are fewer opportunities for
17 individuals at the executive level, and a minimum of
18 12 months may truly be a minimum. It may be a longer
19 period of time for individuals in that type of
20 capacity, rather than a different type of executive
21 role, such as possibly an information technology
22 position in today's date.

23 Q. Now, a person with a finance position, an
24 executive with a finance position in PacifiCorp
25 doesn't get a reduced salary because the market is

0237

1 more competitive, does he or she?

2 A. They do not.

3 Q. Or less competitive, for that matter?

4 A. For that matter; correct.

5 Q. Now, according to your testimony, PacifiCorp

6 bases its severance benefits plan on what other

7 companies provide; is that correct?

8 A. Could you point me to the reference that

9 you're referring to?

10 Q. I was referring to your testimony on page

11 12, 11 through 18, or 18 to 20.

12 A. Eighteen to 20 on page 12?

13 Q. Let's just say page 12 of your testimony,

14 lines 11 through 20, including exhibits referenced

15 therein.

16 A. Okay. Please restate your question.

17 Q. Is it correct that PacifiCorp has based its

18 severance benefits plan on what other companies

19 provide?

20 A. That is correct.

21 Q. Now, PacifiCorp management proposed the

22 severance plan contained in Exhibit 126-C, did it

23 not?

24 A. It did.

25 Q. And PacifiCorp management approved it; is

0238

1 that right?

2 A. That's correct.

3 Q. And PacifiCorp management benefits from it;
4 correct?

5 A. That would be correct.

6 Q. If every company has plans similar to this
7 plan and every company has such a plan in order to be
8 competitive, isn't that a self-serving mechanism for
9 ever-increasing values in severance plans?

10 A. I wouldn't state that every company has a
11 plan of similar nature, as part of an exhibit that I
12 included, 3-C, outlines a number of different ways in
13 which our competitive group structures an incentive
14 -- or structures a severance plan relative to the
15 value delivered to different levels of executives.
16 The plan is structured in conjunction with the
17 industry and the organization.

18 Q. That's your response to my question?

19 A. Yes.

20 Q. Who decides when the severance compensation
21 is too much?

22 A. Well, the severance plan is developed by the
23 human resources function, myself, and agreed to by
24 the senior management of the organization, and it's
25 based upon its competitive position to the

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1 marketplace, so I wouldn't necessarily say it's too
2 much or too little. Our overall pay philosophy and
3 programmatic philosophy is to deliver programs and
4 pay at the market average, so we are structuring our
5 plan to be consistent with the market.

6 Q. But if everyone's trying to be competitive,
7 doesn't that give an incentive for everyone to have
8 these plans and keep increasing the benefits to keep
9 up with everybody else?

10 A. From my perspective, that would be
11 speculative.

12 Q. Now, Mr. Wilson, am I correct you are not
13 eligible for the executive plan, but you are eligible
14 for the non-executive plan; is that right?

15 A. That is correct.

16 MR. TROTTER: Those are all my questions,
17 Your Honor. Thank you.

18 JUDGE MOSS: Thank you, Mr. Trotter.
19 Anything from the Bench? Chairman Sidran.

20

21 E X A M I N A T I O N

22 BY CHAIRMAN SIDRAN:

23 Q. Good afternoon.

24 A. Good afternoon.

25 Q. I'm referring here to Confidential Exhibit

0240

1 Number 123, which is basically, as I understand it, a
2 comparison of the -- what I think you referred to as
3 the competitors, your competitors in the market?

4 A. Just --

5 Q. For executives?

6 A. Just to confirm, I believe I have it as 3-C?

7 Q. Yes.

8 A. Correct.

9 Q. And so I'm referring to what's at the top of
10 the exhibit as page one of six, and the header is
11 Severance Comparables, Executive Severance Benefits,
12 Change in Control Severance Benefits, then there's a
13 list of companies. Are these the companies that
14 PacifiCorp used as its competitors in the labor
15 market?

16 A. This is a sampling of that group.

17 Q. Okay. Are these -- does this list include
18 companies that are operating in so-called
19 restructured markets or are they vertically
20 integrated utilities that are earning in a rate of
21 return model?

22 A. It varied at the time that the survey was
23 run.

24 Q. So it includes both companies?

25 A. It does.

0241

1 CHAIRMAN SIDRAN: Thank you. That's all.

2 JUDGE MOSS: Okay. Nothing further from the
3 Bench? Any redirect?

4 MR. VAN NOSTRAND: Just a couple questions,
5 Your Honor.

6

7 R E D I R E C T E X A M I N A T I O N

8 BY MR. VAN NOSTRAND:

9 Q. Mr. Wilson, I want to make sure the terms
10 we're using are clear to everyone. When Mr. Trotter
11 asked you whether the market for utility executives
12 is competitive, I believe you indicated yes?

13 A. That's correct.

14 Q. When you used the term competitive in
15 response to that question, could you describe what
16 that means, in your view?

17 A. Sure. From a compensation perspective, as I
18 believe I mentioned towards the end there, is that we
19 have an overall pay philosophy of providing
20 market-competitive or at the market average total
21 compensation, which is consistent of base, incentive,
22 or more commonly referred to as bonus. We also apply
23 that same philosophy with each and every program that
24 we design and put forward to our employees, whether
25 it be a benefit program or a compensation program

0242

1 such as the severance program that we discussed here
2 today.

3 Q. When the question related to the market for
4 utility executives being competitive, what does that
5 mean?

6 A. What that means is where -- our market is
7 defined as where we're attracting labor from in order
8 to come into our organization, and so that will be a
9 composition of utility organizations, where we
10 believe that we have -- there's talent to pull into
11 our organization to provide more efficient, safe and
12 reliable services to our organization and customers.

13 Q. What makes a market competitive versus not
14 competitive, that market that you're referring to?

15 A. Our position relative to the average of the
16 compensation provided by those competitors.

17 Q. Mr. Trotter asked you a question about
18 whether or not a salary level provided adequate
19 compensation to -- basically, to compensate for the
20 risk of severance, and your response was that that
21 was not accurate. Could you explain why, in your
22 view, that's not accurate?

23 A. Could you reference back specifically to the
24 question?

25 Q. Mr. Trotter asked you a question about

0243

1 whether a salary in excess of half a million dollars
2 a year was sufficient enough to compensate someone
3 for the risk of severance, and you indicated that was
4 not accurate. Could you explain that response?

5 A. Sure. What I -- my reference to not
6 accurate is that there actually -- we have to look at
7 each and every position, each and every executive
8 level job, and the 500,000 may be appropriate from a
9 total compensation perspective, again, base and
10 incentive, but it really is dependent on the
11 position. So the 500,000 may be appropriate, it may
12 not be, depending upon the role that we're
13 discussing.

14 Q. And how does the severance aspect of that
15 fit into that evaluation?

16 A. Well, the severance, as we've defined it, is
17 the multiple of the competitive level compensation
18 we've structured for the position based upon looking
19 at the marketplace for the job.

20 MR. VAN NOSTRAND: Thank you, Your Honor. I
21 have no further questions.

22 JUDGE MOSS: Mr. Wilson, Chairman Sidran has
23 another question for you.

24

25 E X A M I N A T I O N

0244

1 BY CHAIRMAN SIDRAN:

2 Q. I just wanted to follow-up. So your
3 response to my earlier question was that you view the
4 comparables as including companies operating in
5 so-called restructured markets; correct?

6 A. Correct.

7 Q. But I take it from at least the list I'm
8 looking at here, you don't consider public power or
9 consumer-owned utilities to be comparable; correct?

10 A. We haven't, no.

11 Q. Okay. So can you explain to me why you view
12 the restructured companies operating in so-called
13 competitive markets to be comparable to your model in
14 a rate of return context and you don't view
15 consumer-owned or public utilities to be comparable?

16 A. Our definition of comparable or comparable
17 has to do with the size and scope of the
18 organization, the revenue that each organization is
19 bringing into their company as a comparable. So it
20 really isn't related to whether they're public or
21 private; it has to do with the same breadth and
22 responsibility or scope and size of the organization.

23 CHAIRMAN SIDRAN: All right. Thank you.

24 JUDGE MOSS: Okay. Nothing further for this
25 witness? We thank you, Mr. Wilson, and you may step

0245

1 down.

2 THE WITNESS: Thank you.

3 JUDGE MOSS: I believe Mr. Wrigley is next.

4 Whereupon,

5 PAUL M. WRIGLEY,

6 having been first duly sworn by Judge Moss, was

7 called as a witness herein and was examined and

8 testified as follows:

9 JUDGE MOSS: Thank you. Please be seated.

10

11 DIRECT EXAMINATION

12 BY MR. VAN NOSTRAND:

13 Q. Mr. Wrigley, could you state your name and
14 spell it for the record, please?

15 A. It's Paul, P-a-u-l, middle initial M.,
16 Wrigley, W-r-i-g-l-e-y.

17 Q. And have you prepared and had the Company
18 file direct and rebuttal testimony on your behalf in
19 this proceeding?

20 A. I have.

21 Q. Do you recognize Exhibit 131 as your
22 pre-filed direct and Exhibit 136 as your pre-filed
23 rebuttal?

24 A. I do.

25 Q. Do you have any additions or corrections to

0246

1 make to those exhibits?

2 A. I don't.

3 Q. If I asked you the questions set forth
4 therein, would your answers be the same today?

5 A. They would.

6 Q. Did you also prepare Exhibits 132 through
7 135 and 137 and 138 to accompany that testimony?

8 A. I did.

9 Q. Any additions or corrections to make to
10 those documents?

11 A. No.

12 Q. Are they true and correct, to the best of
13 your knowledge?

14 A. They are.

15 MR. VAN NOSTRAND: Your Honor, I'd offer
16 Exhibits 131 through 138 and tender Mr. Wrigley for
17 cross-examination.

18 JUDGE MOSS: Hearing no objections, those
19 will be admitted as marked. And Mr. Sanger, Ms.
20 Davison, questions? Did I have you down for
21 questions? Or no, Staff has questions, so they go
22 first.

23 MR. TROTTER: Thank you, Your Honor.

24 JUDGE MOSS: Yes, Mr. Trotter.

25

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1 C R O S S - E X A M I N A T I O N

2 BY MR. TROTTER:

3 Q. Mr. Wrigley, I have three areas of cross for
4 you today. The first, very briefly, in your direct
5 testimony, you had an adjustment entitled IRS
6 Settlement Amortization. Do you recall that?

7 A. Yes.

8 Q. And you did not rebut Staff Witness Kermode
9 on that issue; is that right?

10 A. That's right.

11 Q. Let's turn, then, to severance, severance
12 pay. Am I correct that, as of March 31st of 2006,
13 PacifiCorp had recorded a severance expense for the
14 MEHC transition of about \$12 million?

15 A. Could you say that again? Sorry.

16 Q. As of March 31st, 2006, PacifiCorp had
17 recorded a severance expense for the MEHC transition
18 of about \$12 million?

19 A. That's right.

20 Q. And the Company determined the amount of the
21 liability and the expense to record in accordance
22 with applicable accounting standards; correct?

23 A. Yes.

24 Q. And pursuant to those accounting standards,
25 when PacifiCorp notifies an employee who is eligible

0248

1 for severance compensation that he or she is being
2 displaced, PacifiCorp records a liability and expense
3 at that time; correct?

4 A. Yes.

5 Q. Let's go to your rebuttal testimony, Exhibit
6 136, page 10. And on line 24, you're referring to
7 Staff's recommendation to amortize transition costs
8 or severance payments, and you state on line 24,
9 Staff's recommendation to include the transition
10 costs in rate base as part of a working capital
11 calculation, however, is punitive. Do you see that?

12 A. Yes, I do.

13 Q. Now, Staff did include in rate base an
14 amount for unamortized severance expense, did it not?

15 A. In this case it did, yes.

16 Q. My last area of questioning regards working
17 capital, and I have a few questions about the lead
18 lag study the Company filed in this case. And just
19 for terminology's sake, an example of a --

20 A. Hold on.

21 Q. -- lag is when the Company provides a
22 service on day one, but does not get paid for it
23 until, say, 30 days later?

24 A. Right, yes.

25 Q. And an example of a lead is when a vendor

0249

1 provides a service to PacifiCorp on day one, but
2 PacifiCorp does not pay for it until, say, 30 days
3 later?

4 A. Right.

5 Q. Now, let's go to page 14 of your rebuttal.
6 And on lines 14 to 16 you say -- give an example that
7 a 30-day payment for a specific invoice could land on
8 the weekend, in which case it makes sense to pay it a
9 few days in advance?

10 A. Right. If it fell on a Saturday, you'd have
11 to pay it 29 days; if it falls on a Sunday, you're
12 going to have to pay it 28 days; if it falls on a
13 Monday holiday, you're going to have to pay 27 days
14 to pay within 30.

15 Q. Okay. Right. And according to Mr. Schooley
16 -- or Mr. Schooley -- well, let me ask it this way.
17 The same thing happens if a company has a practice of
18 paying vendors within 26 days. Sometimes that 26th
19 day will fall on a weekend, as well, won't it?

20 A. Well, we don't have a practice of paying it
21 in 26 days.

22 Q. I'm asking this in a hypothetical.

23 A. Hypothetically, yes.

24 Q. Now, in your lead lag study, you used the
25 date PacifiCorp issues the check as the date of

0250

1 payment, not the date the check clears the bank?

2 A. Right.

3 Q. Is that --

4 A. That's correct.

5 Q. Does PacifiCorp pay some of its vendors by
6 wire transfer?

7 A. I believe so.

8 Q. And are those also generally made prior to
9 the 30-day terms of the invoice?

10 A. I'm not certain, but, you know, the record
11 would show the larger ones are paid closer to 30
12 days, and obviously wire transfer is instantaneous.

13 Q. And that methodology is not efficient to use
14 for smaller vendors, because of the cost of wire
15 transfer; correct?

16 A. As we move forward in time, I don't think
17 that will be true. It seems to be a lot easier
18 nowadays and I would see in the future that -- most
19 payments being made by electronic transfer, rather
20 than checks. That would show in the next lead lag
21 study we do.

22 Q. I'm talking about the current one. Do you
23 know what percentage of wire transfer payments are
24 used?

25 A. I don't.

0251

1 Q. Turn to page 15 of your rebuttal. And I'm
2 focusing on the table following line three. You have
3 two years listed here, 2003, 2005; is that right?

4 A. That is right.

5 Q. Now, isn't it true that the column that you
6 have headed 2005 in fact contains data in your lead
7 lag study from 2003?

8 A. Where did you get that information from?

9 Q. Okay. Let's go to Exhibit -- just a second
10 -- 135, page 2.4.1. And the numbers there match the
11 numbers you include under 2005, but page 2.4.1 says
12 it's from a March 2003 lag calculation?

13 A. Yeah, it appears the 2005 column is the
14 2003, and I'm not certain what the 2003 column is.

15 Q. Okay. Well, whatever it is, you're showing
16 an improvement in revenue lead days from some prior
17 period, 47.9, to 2003 of 41.27. That's an
18 improvement of 5.63 days?

19 A. Yes.

20 Q. Had there been any further improvements in
21 revenue lead days in the four years since the March
22 2003 study?

23 A. I don't know. We do the lead lag studies
24 every five years, so the next one we'll do probably
25 -- since we've now moved from a fiscal year ending

0252

1 March to a fiscal year ending December, the next lead
2 lag study will be done on 2007 data, so we'll be
3 doing one in the spring of 2008.

4 Q. So your answer --

5 A. It's not cost-effective to do it more often
6 than once every five years.

7 Q. So your answer is you don't know, because
8 you don't do the studies that frequently?

9 A. That's correct.

10 Q. And you also show a change in expense lag
11 days from some prior period, 36.2, to 35.2 in 2003.
12 In your testimony, you referred to other operating
13 improvements. Is that other operating improvement
14 that you're referring to?

15 A. Yes.

16 Q. But this implies that you're actually paying
17 -- by expense lag days, that means you're -- in 2003,
18 you were paying your expenses more quickly than you
19 were in the prior period; correct?

20 A. Yes, and we were also receiving the revenues
21 more quickly, yes.

22 Q. But just focusing on the expense lag days,
23 that's not really an improvement, is it, from the
24 Company's perspective?

25 A. Paying the expenses more quickly?

0253

1 Q. You're not getting as much float as prior,
2 are you?

3 A. Could just be the normal -- you know, in
4 previous times, checks took longer to clear. It just
5 happens that things -- expenses are paid more
6 quickly. I don't think we --

7 Q. But you're using --

8 A. -- pay our expenses to determine the float.

9 Q. But you're using the check, date of the
10 check, not the date the check cleared for purposes of
11 computing expense lags, aren't you?

12 A. Right, yes.

13 MR. TROTTER: Those are all my questions.
14 Thank you, Mr. Wrigley.

15 JUDGE MOSS: Thank you, Mr. Trotter. And
16 for ICNU?

17 MS. DAVISON: Thank you, Your Honor.

18

19 C R O S S - E X A M I N A T I O N

20 BY MS. DAVISON:

21 Q. Mr. Wrigley, when did MidAmerican Energy
22 Holdings Company purchase or acquire PacifiCorp?

23 A. March 21st, 2006.

24 Q. Do you believe the MEHC acquisition of
25 PacifiCorp is a known and measurable event for

0254

1 purposes of this rate case?

2 A. Yes.

3 Q. Now that MEHC owns PacifiCorp, should
4 PacifiCorp's ratepayers be required to pay for
5 Scottish Power's management costs?

6 A. Part of the merger agreement was the
7 agreement that it would pay for management costs.
8 The level of Scottish Power management costs in this
9 -- in the test period, 12 months ending March 2006,
10 will be approximately the same level of the
11 MidAmerican management fees going forward.

12 Q. Could you turn to Exhibit 141, please?

13 A. I have that.

14 Q. This is a copy of PacifiCorp's response to
15 ICNU Data Request 3.11. Is it correct that
16 PacifiCorp has not removed approximately \$9.14
17 million in Scottish Power management fees from the
18 revenue requirement in this case?

19 A. Right, in the stipulations in the six states
20 in the MEHC proceedings, states were offered two
21 choices on management fees. Utah elected to keep
22 management fees going forward at the \$9 million
23 level, approximately the same level as what's in this
24 case.

25 Washington elected a different thing of

0255

1 management fees. At page 4.6 of Exhibit 133, what
2 Washington elected was to take the management fees
3 which we had previously paid to companies like PPM
4 and increased the level to 1.5 million. And that's
5 an adjustment of \$146,000, and that's how Washington
6 State decided to treat management fees going forward,
7 not look to the fees paid from above, but looked at
8 the fees paid to companies below.

9 Q. So the Scottish Power management fees are
10 part of your Account 930; is that correct?

11 A. Yes, I believe so.

12 Q. And is it correct that your system overhead
13 allocator for Washington is 7.381 percent of the
14 system-wide costs?

15 A. That sounds right.

16 Q. So would you agree, subject to check, that
17 Washington's share of the Scottish Power management
18 fee is approximately 675,000?

19 A. Yes.

20 Q. Could you turn to Exhibit 137, page 52?

21 A. What was the page? Sorry.

22 Q. Page 52 of Exhibit 137.

23 A. Oh. It's my rebuttal exhibit.

24 Q. Yes, yes, Exhibit 7, marked 137.

25 A. Okay. Page again? Sorry.

0256

1 Q. Okay. If you look down at that footnote on
2 that page --

3 A. Sorry, what was the page again? Sorry.

4 Q. It's page 52.

5 A. Fifty-two. Yes, I see that.

6 Q. Okay. At the bottom of that footnote, do
7 you see the figure \$22.8 million? Is that a
8 typographical error, and instead it should be \$222.8
9 million?

10 A. Yes, that is a typographical error.

11 Q. Has the Company provided any work papers
12 that show that the total A&G costs are now below the
13 \$222.8 million A&G expense cap?

14 A. If you go to page six of that exhibit and
15 look at the A&G line, the 15.2 million, if you take
16 that as a percentage of the -- if you do the
17 arithmetic, you'd calculate that to be slightly below
18 -- we're below the 2.28 cap.

19 Q. So does the Company still stand behind its
20 Commitment Washington 7(B), that its A&G expenses
21 will be capped at \$222.8 million?

22 A. That's not the -- that's not the commitment.
23 The commitment is that if A&G is over 222.8, that
24 there will be a refund -- basically a refund to
25 customers up to the \$6 million above 222.8 million

0257

1 going forward. So if the amount is like 243 million,
2 245 million, there's only a \$6 million credit to
3 customers.

4 Q. I see. And have you done that in this case?

5 A. Yeah, we're below the 222.8. In addition,
6 we've been accruing since April the 1st, 2006,
7 approximately eight percent of the \$6 million, and we
8 proposed to start returning that to customers with
9 the rate change in this case, also.

10 Q. So could you turn to Exhibit 134, at page
11 4.9.1?

12 JUDGE MOSS: What tab is that under?

13 THE WITNESS: It's Tab Four, O&M
14 adjustments, page 4.9.1.

15 JUDGE MOSS: Okay.

16 THE WITNESS: It's the last page in that Tab
17 Number Four.

18 JUDGE MOSS: Thank you.

19 Q. Do you have that now?

20 A. Yes, I do.

21 Q. And you see that on the left-hand column,
22 two-thirds of the way down, three-quarters of the way
23 down, the number 229,116,230; is that correct?

24 A. The adjusted A&G expense, yes, I see that.

25 Q. And this exhibit shows that, before you

0258

1 filed your rebuttal testimony that eliminated this
2 adjustment, your adjusted A&G expense for the total
3 company was the 229 million?

4 A. Right, and then both Mr. Schooley and Ms.
5 Iverson pointed out a mistake in the calculation of
6 the severance, which inflated the A&G by \$12 million,
7 and in my rebuttal testimony I accepted both of the
8 arguments that it was incorrect. So then we would
9 reduce the A&G down to 217 million.

10 Q. So did you reduce the A&G expense by 6.3
11 million to get it back down to the normalized 222.8
12 million?

13 A. We did in the direct case. It wasn't
14 necessary in the rebuttal case, because by doing the
15 -- by changing the severance and reducing the A&G and
16 the severance by 12 million, we didn't need to do
17 this adjustment. In fact, we reversed this
18 adjustment, as did Ms. Iverson and Mr. Schooley in
19 their testimony.

20 Q. So in your original filing, your A&G
21 expenses were capped at the 222.8 million?

22 A. Right.

23 Q. Okay. And then, in your rebuttal, you've
24 included, as you just said, some adjustments to A&G
25 expense; correct?

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1 A. Right.

2 Q. Okay. So if you could turn back to Exhibit
3 137, page 44 this time. If you look at line 18,
4 under A&G, would you agree that there's four
5 adjustments to the A&G expense?

6 A. Yes, I see that.

7 Q. And do you see that the four columns include
8 EEI dues, pro forma wages, customer deposits and
9 revised MEHC transition savings?

10 A. Yes, I see that.

11 Q. And these adjustments are shown on a
12 Washington jurisdictional basis; correct?

13 A. Right, and the pro formed wages is just
14 placed on the A&G line for simplicity. Obviously,
15 the -- this is Mr. Schooley's adjustment to increase
16 the wages, which we accepted. He did it for all
17 employees. However, we just put it on there for
18 simplicity. It would be spread amongst all areas of
19 operating expense.

20 Q. So if you look at the number -- again, I'm
21 still on Exhibit 137, page 44, on the left-hand side,
22 the total for those four columns is a positive
23 265,875; is that correct?

24 A. That's correct, yes.

25 Q. So your rebuttal testimony has increased

0260

1 your A&G expense by 265,875; is that correct?

2 A. As I said, we only accepted Mr. Schooley's
3 adjustment and put it on that line. I could have put
4 it on a different line, but normally you put it in
5 one of the biggest accounts. But we didn't spread
6 the 1.1 million A&G between all accounts, which we
7 could have done.

8 Q. Well, I understand that it was very generous
9 of Mr. Schooley to give you more money, but by
10 putting it here with your A&G expenses, aren't you
11 now above your A&G cap to the tune of 265,875?

12 A. I don't believe so, no.

13 Q. Well, isn't it just a matter of simple
14 mathematical calculation that you've admitted that
15 your numbers have gone up by that amount from your
16 original testimony, and we have established that that
17 is now in your A&G expense category, so why is it
18 that you're now not over the A&G cap by 265,875?

19 A. Because if I turn to the front page and do
20 the math over here, I believe I still will be below
21 it. If we go to page six of 71, look at the A&G
22 there, if I take the 15.2 million Washington adjusted
23 --

24 Q. I'm sorry, where are you?

25 A. Page six of 71. I believe if you do the

0261

1 math, you'll find out that the 15.2 million as a
2 percentage of the total company, since it's reduced
3 from 17.4 million, would reduce the A&G -- total
4 company A&G by -- to less than 222.8.

5 Q. Well, I won't have you do a mathematical
6 calculation. I think the numbers speak for
7 themselves. So we'll -- we won't take any more of
8 the Bench's time on this, but I think you understand
9 the point.

10 A. Yes.

11 Q. Would you turn to Exhibit 143?

12 A. That's the answer to Data Request 7.8?

13 Q. That's correct. Do you have that?

14 A. I do.

15 Q. Did you include in your revenue requirement
16 the costs of employees that operate power plants and
17 mining operations for plants that are not included in
18 the West Control Area method?

19 A. Could you restate that? Sorry. Did we
20 include -- no, we did not include people -- plants on
21 the East side. It was done in the Western Control
22 Area.

23 Q. So you did not include the employee costs
24 associated with any of your employees outside of the
25 Western Control Area?

0262

1 A. Right, we went through by
2 location-by-location basis for the plants and only
3 included the ones on the Western Control Area, whose
4 location was in the West.

5 MS. DAVISON: Okay. I have no further
6 questions.

7 JUDGE MOSS: Thank you. Anything from the
8 Bench? Commissioner Oshie.

9

10 E X A M I N A T I O N

11 BY COMMISSIONER OSHIE:

12 Q. Mr. Wrigley, I wanted to follow up on Ms.
13 Davison's question, but not necessarily with regard
14 to employees, but with regard to the lead lag study.
15 Now, first of all, the lead lag study that is in your
16 testimony was completed in 2003?

17 A. Yeah, late 2003.

18 Q. Okay. And as I understand from your
19 testimony, then, that the lead lag study that was
20 completed by the Company looked at the Company on a
21 total Company basis and then allocated a portion of
22 the -- whether it's, you know, the expense lag or the
23 revenue lag to the Washington jurisdiction based upon
24 what?

25 A. It would have been based upon the revised

0263

1 protocol information for the 12 months ending March
2 2003. Well, probably it would have been modified
3 accord allocation methodology.

4 Q. All right. And so there was no attempt by
5 the Company in completing its lead lag study to at
6 least parse that study that's completed in 2003 to
7 separate the Eastern Control Area from the Western
8 Control Area and come up with a conclusion?

9 A. No, although, of course, you know, revenues,
10 which is one side of the equation, would be specific
11 to Washington, so retail revenues are obviously
12 directly assigned to the state of Washington, so that
13 wouldn't vary between Eastern and Western Control
14 Areas, but wholesale revenues would.

15 Q. And expenses would?

16 A. Expenses would.

17 COMMISSIONER OSHIE: Okay. Thank you. No
18 further questions.

19 JUDGE MOSS: Commissioner Jones.

20

21 E X A M I N A T I O N

22 BY COMMISSIONER JONES:

23 Q. Following up on Commissioner Oshie, so just
24 to be clear on this, the latest lead lag study that
25 the Company has done for all of its jurisdictions,

0264

1 not just the state of Washington, is this March 2003
2 study?

3 A. That's right.

4 Q. There has been no update for the purpose of
5 this rate case?

6 A. No, there has not.

7 Q. How much does it cost to do a lead lag
8 study?

9 A. I'm not certain of the total cost. The last
10 time we had somebody working on it for about four or
11 five months almost continuously to pull it together.
12 So it wouldn't be prohibited. Until recently,
13 obviously things didn't change much, and once every
14 five years would be enough to obtain the study. If
15 the Washington Commission wants us to do a lead lag
16 study just for the state of Washington, that's
17 something we could do.

18 Q. I'm not suggesting that, but since you said
19 it, it's in the record.

20 A. I have to see if it's in my manager's
21 budget.

22 Q. I see some managers in the audience there.
23 Each -- you operate in six jurisdictions; correct?

24 A. Yes.

25 Q. Do the other five jurisdictions use a lead

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1 lag study or an investor-supplied working capital?

2 A. We definitely use a lead lag study in
3 Oregon, California, Wyoming and Utah. I thought we
4 used one in Idaho, but Mr. Schooley's research says
5 that they used investor supplied. We haven't had a
6 fully contested rate case in Idaho since 1986, so --
7 but we will be supporting a lead lag study in the
8 rate case we file in Idaho later this year.

9 Q. In your view, I'm referring to page 15 of
10 your rebuttal testimony, where you talk about the
11 deficiencies of the investor-supplied working
12 capital. And I'd just like to refresh, just to make
13 sure I understand this, you list two basic weaknesses
14 with the approach, one is that it is static --
15 obviously a balance sheet approach is static?

16 A. Right.

17 Q. Unless you update the balance sheet on a
18 regular basis, every 12 months and six months, then
19 it would not be static; correct?

20 A. Well, in the balance sheet approach, you're
21 looking at based on the last day of the month and not
22 taking into account what happens during -- in between
23 the month.

24 Q. Correct.

25 A. You're looking at 13 points in time. That's

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1 why it's static. If you read through the lead lag
2 study, it mentions that some of the accounts they
3 looked at did show a variation, that some of the
4 accounts receivable peaked in the middle of the month
5 and went down towards the end of the month, and
6 therefore taking an average was not the right way to
7 do it. And that's what I found to be a problem with
8 the investor-supplied approach.

9 Q. And then, on page 15 and 16, you mentioned
10 the second deficiency which is, and you quote Mr.
11 Hahne's study, quote, does not recognize the working
12 capital requirement from the time service is provided
13 until revenues are recognized. Can you specify that?
14 Can you clarify that for me?

15 A. Well, basically, again, it's just looking as
16 a point in time. I think the only way you can do
17 what Mr. Hahne requests is to look at the lead lag
18 study. I just still think the investor-supplied can
19 never do this.

20 Q. And so you think the investor-supplied
21 working capital, as you state in your summary of your
22 position, is that the methodology is outdated and has
23 not been reviewed for a significant period of time.
24 Reviewed by whom, by economists or by FERC or --

25 A. It's definitely not been reviewed by FERC.

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1 There doesn't seem to be much in the -- I haven't
2 seen anything in any economic journals recently on
3 it. Mainly, it was -- the main reason for using this
4 historically was that it was a good shortcut and lead
5 lag studies were expensive. Well, computers have
6 come along, so lead lag studies are not as expensive,
7 and as Mr. Schooley explains, things are evolving and
8 the balance sheet approach is getting more difficult.
9 Staff make changes as they go along. So I don't
10 think the investor-supplied working capital is
11 necessarily a quick and easy shortcut nowadays.

12 Q. But the lead lag study, as you stated
13 earlier, is still too expensive for your managers to
14 contemplate to do on a regular basis?

15 A. Well, previously, five years was regular
16 enough. Possibly nowadays we would do it more often.
17 I don't think we've looked into it. When we do the
18 12 months time, we can see if there's been a big
19 improvement between 2003 and 2008, and then it might
20 be necessary just to do another quicker cycle.

21 Q. So the other jurisdictions, Oregon,
22 California, Wyoming, in particular, have accepted the
23 lead lag study that you've submitted in this case, as
24 well done in March 2003; is that what you're saying?

25 A. Yes, sir, they have.

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1 COMMISSIONER JONES: Okay. Thank you.

2 JUDGE MOSS: Any redirect?

3 MR. VAN NOSTRAND: No, Your Honor.

4 JUDGE MOSS: All right. Well, thank you for
5 your --

6 MR. TROTTER: Your Honor, I just had one
7 follow up.

8 JUDGE MOSS: Mr. Trotter, I'll allow that.

9 MR. TROTTER: I appreciate that.

10

11 R E C R O S S - E X A M I N A T I O N

12 BY MR. TROTTER:

13 Q. You mentioned that Mr. Schooley, in his
14 testimony -- this was in response to a question from
15 Commissioner Jones -- referred to additional
16 complexities, and PacifiCorp issued a data request to
17 Staff asking what he meant by that, didn't you?

18 A. Yes, we did.

19 Q. And he explained in the response that the
20 complexities dealt with certain complexities related
21 to pensions, as well as to financial derivatives?

22 A. I believe that was his answer.

23 Q. And he explained how he handled those
24 complexities in his analysis, didn't he, in that
25 response?

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1 A. I believe the data request is in the record,
2 yes.

3 MR. TROTTER: Thank you.

4 JUDGE MOSS: All right. Well, Mr. Wrigley,
5 we thank you for your testimony. You may step down.
6 All right. We'll be in recess for 15 minutes, till
7 quarter after the hour.

8 (Recess taken.)

9 JUDGE MOSS: Let's go ahead with the
10 preliminaries. And please raise your right hand.
11 Whereupon,

12 WILLIAM R. GRIFFITH,
13 having been first duly sworn by Judge Moss, was
14 called as a witness herein and was examined and
15 testified as follows:

16 JUDGE MOSS: Thank you. Please be seated.
17 And Mr. Van Nostrand, you can go ahead with the
18 preliminaries, if you wish.

19 MR. VAN NOSTRAND: All right. Thank you,
20 Your Honor.

21

22 D I R E C T E X A M I N A T I O N

23 BY MR. VAN NOSTRAND:

24 Q. Good afternoon, Mr. Griffith. Could you
25 state your name for the record, please?

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1 A. My name is William R. Griffith,
2 W-i-l-l-i-a-m R. G-r-i-f-f-i-t-h.

3 Q. And did you prepare both direct and rebuttal
4 testimony in this proceeding?

5 A. Yes, I did.

6 Q. And your direct testimony is Exhibit 31 and
7 your rebuttal testimony is Exhibit 45?

8 A. Yes.

9 Q. Do you have any additions or corrections to
10 make to your two pieces of testimony?

11 A. No, I do not.

12 Q. If I asked you the questions set forth in
13 Exhibit 31 and Exhibit 45 today, would your answers
14 be the same as set forth in those documents?

15 A. Yes, they would be.

16 Q. Did you also prepare Exhibits 32 through 44
17 and 46 through 48 to accompany your direct and
18 rebuttal testimony?

19 A. Yes, I did.

20 Q. Any corrections to make to those exhibits?

21 A. No.

22 Q. They were prepared under your direction and
23 supervision?

24 A. Yes, they were.

25 MR. VAN NOSTRAND: Your Honor, I move the

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1 admission of Exhibits 31 through 48, and Mr. Griffith
2 is available for cross-examination.

3 JUDGE MOSS: Those have been admitted as
4 marked, and Mr. Purdy, you've indicated, I believe,
5 about 15 minutes for this witness.

6 MR. PURDY: Yes, I'll try to be brief, Your
7 Honor.

8 JUDGE MOSS: Thank you.

9

10 C R O S S - E X A M I N A T I O N

11 BY MR. PURDY:

12 Q. Good afternoon, Mr. Griffith. It's nice to
13 meet you.

14 A. Nice to meet you, Mr. Purdy.

15 Q. Would you agree with me, in just a general
16 concept sort of way, that there are inherent benefits
17 to keeping those customers who are, let's say, right
18 on the cusp of not being able to pay their electric
19 bills, keeping them customers, keeping them current
20 with their bills and avoiding -- thereby avoiding
21 certain costs, such as termination, account
22 termination costs, collection, that sort of thing?

23 A. I think there can be some benefits, yes.

24 Q. Okay. Have you, in the course of this case
25 or many other contexts, attempted to quantify what

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1 those benefits might be?

2 A. No, I have not in this case.

3 Q. Okay. I'd like you to turn to what is now
4 your Exhibit 47, if you would. And I'll limit my
5 cross-examination to Mr. Griffith's rebuttal. Do you
6 have that in front of you, sir?

7 A. That's the table that shows the comparison
8 of -- did you say in 47?

9 Q. Forty-seven, which was your -- in your
10 testimony referred to as 17?

11 A. Yes.

12 Q. Okay. The first question, I wanted to
13 square something up that seemed to be an
14 inconsistency, unless I'm overlooking something.
15 You, in your testimony on page three, line six, state
16 that if PacifiCorp brings its funding for low-income
17 bill payment assistance program up to the PSE level,
18 that it would result in a 178 percent increase over
19 the current level; is that right?

20 A. Yes.

21 Q. When I look at Exhibit 47, the last column
22 says increasing it by 166.7 percent. Why doesn't
23 that say 178 percent?

24 A. Which table? I'm seeing 178 percent. I can
25 tell you where that is.

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1 Q. If you could show me on Exhibit 47. Perhaps
2 I'm just overlooking it.

3 A. Yes, on Exhibit 47, that's the referenced
4 amount for a residential customer, so you look on the
5 left, it says schedule, residential.

6 Q. Okay. I got you.

7 A. Move clear all over to the right, and the
8 PSE level at 0.64 percent of base revenues, that
9 increases by 178 percent.

10 Q. Okay. So your rebuttal testimony in this
11 context was limited to residential customers?

12 A. That was just in that paragraph, which
13 begins at the bottom of -- the Q and A that begins at
14 the bottom of page two, I was just talking in that
15 case about residential customers. However, I said,
16 beginning on line six at page three, other rate
17 schedules would see similar surcharge percentage
18 increases across the different scenarios, but I was
19 just using residential as an example.

20 Q. All right. Now, in Exhibit 47 or anywhere
21 else, in any of your other exhibits or your
22 testimony, do you provide a dollar amount that this
23 -- these proposed three -- I guess you'd say proposed
24 increases to low-income bill payment assistance would
25 have on the customer class dollar amount, as opposed

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1 to a percentage?

2 A. Yes, it would be in the same table.

3 Q. Okay.

4 A. Which is now Exhibit 47. Maybe I'll just
5 explain that. That might help to --

6 Q. Yeah, if you would.

7 A. -- explain the table. And again, we'll rely
8 on residential customers. That's, you know, our
9 largest number of customers are residential
10 customers. Currently they pay 23 cents a month in a
11 surcharge to fund the low-income bill payment
12 assistance program. Under the Company's proposal,
13 where we would increase the funding for the
14 low-income bill payment program up to -- including
15 all the rate increases since 2001, the surcharge for
16 a residential customer goes up to 29 cents a month.
17 If we went up to the Avista level that was referenced
18 in Mr. Ebert's testimony, which I think was for 2005
19 revenues, would be approximately 40 cents a month
20 would be the amount, so that would be an increase,
21 then, of 17 cents. And then, under the PSE level, it
22 would be 64 cents a month would be the bill credit --
23 bill surcharge. I'm sorry.

24 Q. Were you aware that Mr. Ebert had also
25 testified that both Avista and PSE have had increases

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1 to these programs since 2005?

2 A. Yes, I was, and as I indicated, I believe
3 that that was -- those were the numbers he provided
4 in his testimony, and I just used those as examples
5 to try to present three different scenarios at
6 different dollar levels.

7 Q. That's fine. I understand. And so to the
8 extent that there's a disparity between what
9 PacifiCorp -- Pacific Power is currently funding and
10 the other two utilities, that disparity's even
11 widened further, has it not, since 2005?

12 A. Well, yes and no. I mean, yes if you just
13 talk about the low-income surcharge that we collect
14 here and we use to fund the low-income bill payment
15 program. We also have other low-income programs. We
16 have a low-income weatherization tariff, which, in
17 Washington, for our Washington customers, can fund up
18 to a million dollars a year of low-income
19 weatherization payments.

20 The latest numbers I have over the last
21 three years, that tariff, which is funded through the
22 system benefit charge, has provided about \$600,000 a
23 year of low-income weatherization services to
24 qualifying low-income customers. We've also got
25 low-income education programs for school-age

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1 children, which we've worked on through low-income
2 community action agencies, and we also have a
3 PacifiCorp-MEHC commitment to fund at least \$80,000 a
4 year towards Project Help.

5 So while it's true on that one piece, there
6 are more pieces to the puzzle than just the
7 low-income bill payment assistance.

8 Q. I appreciate that, but our issue in this
9 case is limited, as you know, to what I call LIBA,
10 low-income bill payment assistance. And along those
11 lines, you have -- well, let's say DSM programs for
12 your largest industrial customers, do you not?

13 A. We have DSM programs for all of our
14 customers.

15 Q. Sure, okay. And those programs are paid for
16 by all ratepayers, are they not?

17 A. Yes.

18 Q. All right. Fair enough. So I just want to
19 make sure I understand. I'll ask one more time. On
20 Exhibit 47, does every customer within these stated
21 customer classes here pay currently the amount under
22 the present column and would pay the exact amount
23 stated under these different scenario columns, or are
24 there differences within the customer class? See
25 what I'm saying?

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1 A. No, there aren't differences within the
2 customer class. These, for these -- these are
3 listing down our rate schedules that we provide
4 electric service to our customers in Washington, and
5 then these are the corresponding surcharge amounts
6 that are applicable to customers on each of those
7 rate schedules.

8 Q. Okay. So if you have a residential customer
9 with quite a substantial amount of usage versus one
10 with very little, they're still going to pay the same
11 amount; right?

12 A. It's a fixed amount per customer, as is a
13 customer charge for residential customer.

14 Q. Okay. Well, so what the Company is
15 proposing is just six cents a month for the
16 residential class, correct, in terms of an increase?

17 A. I think what the Company is saying and what
18 I said in my testimony is we looked at these
19 different levels and that we believe that if the
20 other -- if these amounts, whichever amount were
21 selected, were appropriate, were acceptable to our
22 customers and were consistent with Commission policy,
23 that the Company would be fine with a change to the
24 low-income surcharge level.

25 Q. All right. And how do you intend to or have

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1 you undertaken any effort to determine what the --
2 what your customers would find acceptable?

3 A. We filed the testimony in this case and we
4 have different intervenor groups and we were -- we
5 are interested in the response from the different
6 customer groups as to the acceptable levels here.

7 Q. Thus far, given that nobody has apparently
8 any cross for Mr. Ebert and, to my knowledge, nobody
9 aside from the Company has weighed in on this issue,
10 and The Energy Project, of course, do you take that
11 as a sign that there isn't at least a great deal of
12 resistance to an increase of some sort to LIBA?

13 A. I'm not sure what -- how I take that. I --
14 we offered these scenarios up with our recommendation
15 that any of them would be acceptable to us if other
16 customer groups who are paying these surcharges would
17 find these acceptable to them.

18 Q. All right.

19 A. So I can't really say what type of sign I
20 take.

21 Q. All right. And then, along -- you made that
22 sort of a two-part statement, if the customers find
23 it acceptable and it's consistent with Commission
24 policy. Could you tell me what specific Commission
25 policy you're referring to?

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1 A. Well, I think what we really mean by that is
2 that the Commission would review the proposals and
3 would order the one it finds acceptable, weighing the
4 evidence from our proposal along with the responses
5 from our customer groups.

6 Q. I believe Witness Andrea Kelly testified on
7 behalf of the Company that it's in a relatively
8 strong -- I'm paraphrasing, and I'm sure Counsel will
9 correct me if I'm inaccurate -- but relatively strong
10 return on equity position right now.

11 MR. VAN NOSTRAND: Objection,
12 mischaracterizes Ms. Kelly's testimony.

13 MR. PURDY: Okay. I guess I didn't --

14 JUDGE MOSS: You stand corrected.

15 Q. I didn't get it accurate. I'll strike that.
16 What -- my question is simply this. What rationale
17 does the Company have for justifying the current
18 disparity that does clearly exist between the
19 utilities Pacific Power, Avista and PSE?

20 A. Well, as I mentioned earlier, I don't think
21 it's necessarily a disparity when you look at the
22 whole package of programs that are offered to our
23 customers. And just as our low-income discount that
24 we give to residential customers reflects the
25 differences in our service territory, it is a

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1 winter-only discount that's provided to larger users
2 meant to primarily work for low-income electric space
3 heating customers in Eastern Washington, who are in a
4 different climate zone than customers in other parts
5 of the state. So I think we have different kinds of
6 customers and we have different programs that are
7 matched to those customers.

8 If we just simply compare percentage of
9 revenues, there are the differences, as I showed in
10 my testimony, but I think there are other programs
11 that we also provide our customers, and I think if we
12 look at the whole package of those, I don't
13 necessarily think there is as great a disparity in
14 total -- is a disparity in total as there might
15 appear on the simple one issue.

16 Q. Well, and I appreciate your pointing out
17 those other programs. This is the first time that
18 you've done so in this proceeding. Have you made any
19 similar attempt to assess whether Avista and PSE also
20 have additional programs, including low-income
21 weatherization, that are targeted just to low-income
22 customers?

23 A. I haven't looked at the low-income
24 weatherization. Of course, that's a tariffed service
25 that's approved by the Commission here, and so

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1 certainly I didn't mean to just bring that up today.
2 It's been available for years. The low-income
3 education program that we work on with the low-income
4 agencies, I don't believe that Puget and Avista have
5 those. I don't have any information that they have
6 those services available. And then also the
7 PacifiCorp-MEHC commitment to Project Help, I'm not
8 aware of what the commitments are of the other
9 utilities, but I think that's a fairly
10 utility-specific one.

11 Q. You don't have any information, meaning you
12 just don't know, do you?

13 A. I don't have any information on the
14 low-income weatherization. I do believe, from what
15 I've been told, that Avista and Puget do not have the
16 education programs.

17 Q. So I guess just to kind of wrap this up,
18 then, if I understand your statement on page three,
19 page three or -- statement that, yeah, the Company
20 will implement any of these three approaches, as long
21 as they're acceptable to customers, consistent with
22 Commission policy, that is your final position in
23 this case, is it not, that you will implement any of
24 those three scenarios?

25 A. We will implement -- yes, we will implement

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1 the scenario that the Commission finds acceptable.
2 And I guess, to elaborate on that, it might be
3 another one that isn't one of these three.

4 Q. Well, so that leads to my -- really, the
5 gist of my question, which is how will we and when
6 will we know what you think satisfies these criteria?
7 I mean, will it -- are you looking for a Commission
8 order that says do this amount or do it this way, or
9 are you looking for sort of a collaboration of
10 different factors or what? What's going to trigger
11 that decision?

12 A. Well, I think there's the evidence we
13 provided in a presentation of the different scenarios
14 for the Commission to consider and to consider the
15 responses of the other parties, and then I believe
16 the Commission would -- could make a decision based
17 on that information on the record.

18 Q. Would the Company be willing to -- well, be
19 it in the form of post-hearing briefing or just
20 simply an offer, come up with something other than
21 the lowball position of six -- increase of six cents
22 for residential?

23 MR. VAN NOSTRAND: Objection to the
24 characterization as lowball, Your Honor.

25 JUDGE MOSS: Go ahead, Mr. Purdy.

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1 THE WITNESS: The Company has indicated that
2 any of these, including the original position of the
3 Company or the other three -- the other two levels
4 that have been presented would be acceptable.

5 MR. PURDY: All right. That's all I have,
6 then. Thank you.

7 JUDGE MOSS: Thank you, Mr. Purdy. Anything
8 from the Bench? All right. Redirect?

9 MR. VAN NOSTRAND: No, Your Honor.

10 JUDGE MOSS: All right. Well, thank you,
11 Mr. Griffith. We appreciate you being here today.
12 You may step down. I believe the final witness for
13 the Company is Williams, and I understand there's
14 been some sort of an accommodation reached that will
15 avoid the necessity of having Mr. Williams appear?

16 MR. VAN NOSTRAND: Yes, Your Honor.

17 JUDGE MOSS: And could you tell me what that
18 accommodation is so we can make it a matter of
19 record?

20 MR. VAN NOSTRAND: Yes, Your Honor. Turning
21 to Mr. Williams' Exhibit 116, his rebuttal testimony,
22 there's been some movement as the weighted average
23 cost of capital changes with various issuances or
24 not, and we pretty much landed at the same place that
25 we started.

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1 So the resolution is if we turn to page four
2 of Exhibit 116, we would strike lines one through 20,
3 so we would not be updating the long-term debt and
4 short-term debt, and the Company's weighted average
5 cost of capital in this case would just revert to
6 what was in Mr. Williams' original testimony.

7 JUDGE MOSS: All right. That satisfies your
8 need, Mr. Trotter?

9 MR. TROTTER: Yes.

10 JUDGE MOSS: All right. Now, let's see.
11 Have we previously stipulated --

12 MR. VAN NOSTRAND: Your Honor, also page
13 one, lines 12 to 14.

14 JUDGE MOSS: One to 14?

15 MR. VAN NOSTRAND: Yes.

16 MS. KELLY: Twelve to 14.

17 MR. VAN NOSTRAND: I'm sorry, 12 to 14 on
18 page one.

19 JUDGE MOSS: Yes, all right. As adjusted or
20 edited, then I suppose we can have Exhibits 111
21 through 117 by stipulation. Any objection? Okay.
22 Hearing no objections. All right. Those are
23 admitted.

24 And I believe -- does that complete your
25 case, Mr. Van Nostrand?

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1 MR. VAN NOSTRAND: Yes, it does, Your Honor.

2 JUDGE MOSS: Okay. All right. Now, I
3 previously off the record discussed with the parties
4 what we would do in terms of our witnesses, and Ms.
5 Davison, I believe you have made some contacts to
6 ensure that Mr. Falkenberg and Mr. Gorman will be
7 available with us for a few minutes when we need
8 them?

9 MS. DAVISON: Yes, Your Honor.

10 JUDGE MOSS: And I indicated that since Mr.
11 Johnson has driven all the way down from Seattle to
12 be with us this afternoon unexpectedly, that as a
13 courtesy to him, we would go ahead and put him on the
14 stand next, and then we will do the telephonic
15 examination of those witnesses, and then finally
16 we'll put on Mr. Schooley and Mr. Buckley.

17 Please rise and raise your right hand.
18 Whereupon,

19 STEVEN G. JOHNSON,
20 having been first duly sworn by Judge Moss, was
21 called as a witness herein and was examined and
22 testified as follows:

23 JUDGE MOSS: Thank you. Please be seated.

24

25 DIRECT EXAMINATION

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1 BY MR. FFITCH:

2 Q. Good afternoon, Mr. Johnson. Could you
3 please state your name and spell your last name for
4 the record?

5 A. Steven G. Johnson, J-o-h-n-s-o-n.

6 Q. By whom are you employed?

7 A. Public Counsel, the Washington State
8 Attorney General's Office.

9 Q. What is your position with Public Counsel?

10 A. I'm a regulatory analyst.

11 Q. Did you prepare testimony and exhibits for
12 Public Counsel regarding the power cost adjustment
13 proposal in this case?

14 A. Yes.

15 Q. And that testimony is marked as Exhibits
16 241, 242 and 243; is that correct?

17 A. Yes.

18 Q. And that testimony was prepared by you?

19 A. Yes.

20 Q. Do you have any changes or corrections to
21 the testimony?

22 A. No.

23 Q. And if I asked you the questions in the
24 written testimony today, would your answers be the
25 same?

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1 A. Yes.

2 MR. FFITCH: Your Honor, I would offer
3 Exhibits 241, 242 and 243.

4 JUDGE MOSS: There being no objection, those
5 are admitted as marked.

6 MR. FFITCH: Mr. Johnson is available for
7 cross-examination.

8 JUDGE MOSS: I believe that will be by
9 PacifiCorp.

10 MR. VAN NOSTRAND: We waived cross on Mr.
11 Johnson, Your Honor.

12 JUDGE MOSS: Oh, you did. Well, things are
13 just moving too fast for me.

14 MR. TROTTER: I have some questions, Your
15 Honor.

16 JUDGE MOSS: You do. Let me see. Yes,
17 that's right. All right. Go ahead, Mr. Trotter.

18

19 C R O S S - E X A M I N A T I O N

20 BY MR. TROTTER:

21 Q. Good afternoon, Mr. Johnson.

22 A. Good afternoon.

23 Q. Turn to page seven of your testimony,
24 Exhibit 241.

25 A. Yes.

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1 Q. And at this point, you are discussing the
2 Company's use of hydro resources and you say on lines
3 five through eight, referring to Mr. Widmer, quote,
4 He does not compare the effect of PacifiCorp's WCA
5 hydro electric production to either PSE or Avista's
6 to show that PacifiCorp's dependency crosses a
7 threshold found in the establishment of those two
8 PCAs. Do you see that?

9 A. Yes.

10 Q. And those two PCAs, you're referring to the
11 Avista PCA and the PSA of Puget, although they may
12 have different names than that?

13 A. That's fine. Yes, that's correct.

14 Q. I want to focus on your use of the word
15 found. You're not using that term to refer to a
16 finding of fact by the Commission regarding a minimum
17 utility use of hydro resources, are you, before a
18 PCAM is authorized?

19 A. Finding of fact as a number? Excuse me.
20 You mean they found --

21 Q. When you use the word found here, you are
22 not referring to a Commission finding of fact
23 contained in an order issued by the Commission, are
24 you?

25 A. Well, I'm not referring to a number found in

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1 an order issued by the Commission.

2 Q. Not focusing on a number, but a finding of
3 fact, that the Commission said, We hereby find, or
4 words to this effect, that there is a threshold,
5 hydro dependency of X in order to satisfy conditions
6 for a PCA in this Company?

7 A. I don't believe that language is found in
8 the finding of fact.

9 Q. Or similar language. There's no finding of
10 fact where the Commission, quote, found, unquote, a
11 threshold of hydro dependency that must be exceeded
12 before the utility is entitled to a PCA; is that a
13 fair statement?

14 A. Well, let me add, I'm not sure I can quite
15 agree with that characterization. I think when I
16 look -- and how I used this statement, where I got
17 this statement was to refer to the Commission Order
18 04 in the 050684 docket, and there the Commission set
19 out criterion and said that there needed to be some
20 variation due to weather beyond the Company's
21 control. And I believe that the previous Commissions
22 have been finding that there's such variation that
23 requires or deems legitimate in the public interest
24 to find a PCAM implementable.

25 Here, as I apply that standard here, I

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1 believe I'm looking for that same variability due to
2 weather variations that are beyond the Company's
3 control.

4 Q. So when you use the term threshold, you're
5 not thinking of a minimum percentage of hydro
6 resources used by a utility? That's not what you
7 mean by threshold; is that correct?

8 A. I think the threshold is more complex than
9 that. That's one of the inputs. The fundamental
10 question is, as stated, is whether the Company can
11 manage to meet its load with the resources it's had
12 and manage the variation in power costs that often
13 results in meeting load.

14 Q. But looking at lines five through eight of
15 your testimony, you don't talk about that. You refer
16 to hydro electric production and then refer to a
17 threshold, don't you?

18 A. Yes, and again, I refer to paragraph 91, the
19 first bullet point in Commission Order Number 04,
20 where they're saying that the purpose or the
21 principle behind a PCAM is a mechanism to deal with
22 variations produced due to abnormal weather that's
23 beyond the Company's control, and I guess if you
24 didn't find any of that, I don't believe you could
25 find that a PCAM was necessary.

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1 Q. On page seven of your testimony, lines ten
2 through 15, you discuss PacifiCorp's company-wide
3 exposure to hydro electric production, and you
4 conclude that only 0.2 percent is jurisdictional to
5 Washington; is that right?

6 A. Yeah, I think you phrased that correctly.

7 Q. And you started off with an eight percent
8 figure, which was its company-wide exposure, is that
9 right, according to your calculation?

10 A. Yes.

11 Q. In the last rate case, Docket UE-050684,
12 Public Counsel opposed a Company-wide allocation
13 method for PacifiCorp, didn't it?

14 A. Yes.

15 Q. And Public Counsel was particularly opposed
16 to allocating Company-wide the hydro resources that
17 are located in the Western Control Area; correct?
18 You called it an endowment to Washington?

19 A. Yes, I believe that's correct, my
20 recollection.

21 Q. And I'd like to quote from Public Counsel's
22 brief in that case and ask if you agree with it.
23 This is paragraph 97. PacifiCorp effectively uses
24 two separate portfolios of electric resources to
25 serve two separate sets of retail and electric loads,

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1 one portfolio of resources and loads is located
2 essentially within PacifiCorp's Western Control Area,
3 and the other portfolio of loads and resources is
4 located essentially within PacifiCorp's Eastern
5 Control Area, unquote. Do you agree with that
6 statement?

7 A. Yeah, but maybe we don't have the same idea
8 what it means.

9 Q. Turn to page 13 of your testimony. And here
10 you're referring to Avista's ERM and the inclusion in
11 that ERM of contracts longer than two years if they
12 were under 50 average megawatts; is that right?

13 A. That's correct, yes.

14 Q. And then you state on lines four through six
15 that -- and let me just paraphrase it. Before even
16 introducing for consideration such a feature in
17 another PCA, such as PacifiCorp's, quote, several
18 years of operation of the current Avista ERM should
19 occur, unquote. Is that right?

20 A. Yes.

21 Q. Now, Avista was not required to wait several
22 years while specific features of its ERM were
23 implemented in another utility's PCA, was it?

24 A. You mean general terms? You mean
25 specifically this one or --

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1 Q. This one or any other?

2 A. No, though that was implemented as part of a
3 all-party settlement, so I considered it differently,
4 and I did mention it in my testimony prior to that
5 sentence.

6 Q. And if you believed, as a matter of
7 principle, that several years of operation under an
8 ERM is necessary before including a 50-average
9 megawatt contract, you would have made that argument
10 in the Avista case, wouldn't you?

11 A. No, because it was an all-party settlement,
12 and so you'd use settlements in the totality of the
13 settlement. I don't believe that the Commission or
14 parties bringing an all-party settlement to the
15 Commission can't ask or engage in recommending
16 experimental ideas, but that doesn't make them
17 appropriate for -- automatically appropriate for
18 other settings where we have a very contested PCAM,
19 as in this case.

20 Q. That doesn't make it automatically
21 inappropriate, either, does it?

22 A. No, it doesn't.

23 MR. TROTTER: I have nothing further. Thank
24 you.

25 JUDGE MOSS: Thank you, Mr. Trotter.

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1 Anything from the Bench? Mr. Johnson, we appreciate
2 you driving down and being with us today.

3 MR. FFITCH: Your Honor, I do have --

4 JUDGE MOSS: I'm sorry, I didn't give you an
5 opportunity for redirect. Thank you, Mr. ffitch.

6 MR. FFITCH: I do have one or two.

7

8 R E D I R E C T E X A M I N A T I O N

9 BY MR. FFITCH:

10 Q. Mr. Johnson, you were asked about Public
11 Counsel positions in the last rate case. I think you
12 were provided with a quote or two. Do you believe
13 that the Public Counsel position in this case is
14 inconsistent with the position that was referred to
15 by Staff Counsel, Mr. Trotter?

16 A. No.

17 Q. And can you explain why you don't believe
18 that position is inconsistent?

19 A. Well, yeah, without taking up too much time,
20 I recall that the Company is dispatching its
21 Company-wide system on a Company-wide basis, all its
22 resources on a Company-wide basis, so when we engage
23 in a PCAM, the actual costs incurred are going to be
24 incurred on that Company-wide basis.

25 Separately, you have a cost allocation

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1 methodology, which, remember, is just a model that
2 you use to determine reasonable rates. When you
3 venture into a PCAM, you're going to have to -- you
4 know, you have the authorized, then you have the
5 actuals, or at least traditionally we use the
6 accounting actuals. There's a computer model being
7 suggested in this one, but setting that aside for a
8 moment, you have the authorizing of the actuals.
9 Well, the actuals will be happening on that
10 Company-wide dispatch, and so there's going to be a
11 lot of sorting out about those costs and what real
12 costs actually occurred.

13 And so my point in pointing out what
14 variation Washington State's hydro resources in the
15 WCA contributed to the Company-wide is to recognize
16 that the costs are incurred on a Company-wide basis.
17 And while we may devise a cost allocation
18 methodology, the purpose of a PCAM is to compare
19 those authorized to actuals. So like I said, I don't
20 believe on the record there's quite enough showing to
21 accomplish that task.

22 MR. FFITCH: Those are all my questions.
23 Thank you, Your Honor.

24 JUDGE MOSS: Okay. Chairman Sidran has a
25 question for you, Mr. Johnson.

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E X A M I N A T I O N

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BY CHAIRMAN SIDRAN:

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Q. I don't have the cite to your testimony at hand at the moment, but if memory serves, somewhere in your testimony you suggested, perhaps touching on your response to Mr. ffitch's question, that perhaps we ought to defer consideration of the PCAM issue until after we resolve the allocation and other issues in the case before us now; is that correct?

A. Yeah, to beyond this rate case, yes. I mean, essentially not finding that the PCAM is in order in this rate case, yes.

Q. But that we would, in order to determine -- I guess I'm just trying to clarify, my understanding of your testimony was that in order to determine some of these issues that you have raised with regard to the PCAM, it would be necessary first to resolve and perhaps gain some experience with the allocation methodology --

A. Yes.

Q. -- that ultimately comes out of this case?

A. That's correct. I feel it's contested at this stage, the cost allocation, and that if you come to one agreement on that or if the Commission makes a

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1 ruling on it, they're going to put those pieces
2 together and then they're going to have to figure out
3 how to work on the PCAM. And I wouldn't recommend
4 that. I think you could have results you're not able
5 to anticipate from the record.

6 Q. Okay. Then, and this is also in someone's
7 testimony, perhaps Mr. Widmer's rebuttal. So what
8 was the rationale for opposing the -- I guess we'll
9 refer to them as the attempted settling parties. The
10 Company and Staff suggested bifurcation of this case
11 to, in effect, try to determine some of these issues
12 with respect to allocation methodology and so on and
13 put the PCAM off for subsequent resolution. That was
14 opposed by Public Counsel, if I'm recalling?

15 A. Right, and as I recall in the stipulation,
16 they were asking the Commission to approve the PCAM
17 and then to fill in the details of how it would
18 actually operate afterward. And we opposed the
19 approval of something without the details. And here
20 we're saying that -- you know, we're still saying
21 that we don't believe one is shown on the record and
22 that if the Commission does believe they've met the
23 threshold, we believe there are difficulties in
24 establishing from this record all the details
25 necessary.

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1 So the stipulation was a little different in
2 that it's saying -- was asking the Commission to
3 approve the PCAM, then fill in the details, and I
4 think that was the source of our concern with
5 accepting that mode of operation and approval.

6 CHAIRMAN SIDRAN: All right. Thank you.
7 That's all.

8 JUDGE MOSS: Okay. Nothing further for Mr.
9 Johnson, then?

10 MR. TROTTER: Just one moment, Your Honor.
11 I'm looking at the stipulation, because I don't think
12 it said what he said, what Mr. Johnson suggested.

13 JUDGE MOSS: Well, can't you just argue that
14 on brief?

15 MR. TROTTER: Yes, I just want to bring it
16 to the Commission's attention now, but you're right,
17 I can.

18 JUDGE MOSS: Well, and I want to move along.

19 MR. TROTTER: Okay.

20 JUDGE MOSS: So Mr. Johnson, thank you for
21 being here.

22 THE WITNESS: Thank you.

23 JUDGE MOSS: You may step down. All right.
24 Now, let me first ascertain whether a decision has
25 been made at the Bench whether there will be

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1 questions for Mr. Gorman? Okay. So can we get Mr.
2 Gorman next?

3 MR. GORMAN: I'm here.

4 JUDGE MOSS: Mr. Gorman, welcome. This is
5 Judge Moss speaking. It always feels a little
6 strange to swear a witness over the telephone, but we
7 will do so nevertheless, and I'm sure you will treat
8 it with the solemnity that it deserves, just as if
9 you were here with us in the hearing room.
10 Whereupon,

11 MICHAEL P. GORMAN,
12 having been first duly sworn by Judge Moss, was
13 called as a witness herein and was examined and
14 testified as follows:

15 JUDGE MOSS: Thank you very much, and I
16 believe we'll turn to -- we'll just stipulate the
17 testimony in, I think, and without objection, and
18 turn to Commissioner Jones, who has a question or two
19 for you, Mr. Gorman.

20 THE WITNESS: Thank you.

21

22 E X A M I N A T I O N

23 BY COMMISSIONER JONES:

24 Q. Mr. Gorman, this is Commissioner Jones. How
25 are you?

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1 A. Very good, Commissioner. How are you?

2 Q. Good. Were you listening on the telephone
3 today when Dr. Hadaway was on the stand and I asked
4 some questions and there was some discussion on the
5 return on equity issues?

6 A. I was not on the phone at that time, no.

7 Q. Okay. Well, just to be fair to you, I will
8 briefly tell you what my concern was as expressed to
9 him regarding your testimony, 181-T, and on page two
10 of your testimony, you recommend reducing the
11 authorized return on equity by 0.3; is that correct?
12 Is that the essence of your testimony on the ROE?

13 A. If a PCAM is approved, that's correct.

14 Q. Yes, of course if the PCAM is approved. And
15 one of my questions to Dr. Hadaway was what would be
16 the appropriate analysis for either a capital
17 structure adjustment, as Mr. Elgin proposes, or your
18 adjustment to the return on equity of 0.3 percent?
19 What sort of analysis would be necessary to document
20 the assessment of the reduction in risk, as you
21 describe it, created by a PCAM?

22 A. Well, first I think it would be appropriate
23 to either make the adjustment or reflecting the
24 reduction in risk in either an adjustment to the
25 capital structure or the adjustment to the return on

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1 equity. The adjustment shouldn't be made to both.

2 I proposed an adjustment to the return on
3 equity because it was my understanding that the
4 capital structure was generally reasonable, and I
5 thought an appropriate adjustment to the return on
6 equity would be appropriate in this case to reflect
7 the reduction in risk.

8 The analysis for adjusting PacifiCorp's risk
9 based on what is a clear reduction in an operating
10 risk by the implementation of a PCAM is judgmental.
11 So it is difficult to put an analysis together that
12 captures the market's assessment of what changes in
13 risk will occur, because those changes will be
14 prospective and the market hasn't yet reacted to the
15 implementation of the PCAM, but nevertheless, the
16 market literature is clear that PacifiCorp's risk
17 will decline if a PCAM is implemented.

18 So in order to proxy what a reasonable
19 estimate of what their reduction in the cost of
20 capital will be is related to the assessment of the
21 marketplace of the difference in valuation of utility
22 bonds that takes place for differences in credit
23 quality. The differences in credit quality are
24 proxies for the reduction in PacifiCorp's risk if a
25 PCAM is implemented, and that is, I think,

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1 appropriate, because I'm trying to leave it based on
2 market valuation assessments and then changes to
3 required return based on improving abilities --
4 predictability of earnings in cash flow and thus
5 reducing its risk.

6 So I tied it to the differential or yield
7 spread between a single A utility bond and triple B
8 utility bond and found that about a 30 basis point
9 return spread would be appropriate if PacifiCorp's
10 risk is reduced by the implementation of a PCAM.

11 Q. One of Dr. Hadaway's points was that there
12 are very few utilities, large utilities, either
13 electric or gas, I think he was referring primarily
14 to electric, that do not have some sort of power cost
15 or fuel adjustment mechanism today, and that in order
16 to carry out a study, it would be difficult to do,
17 because there are very few utilities left that do not
18 have some sort of mechanism. Do you agree with that
19 statement?

20 A. Well, there are many utilities that do have
21 some sort of PCAM or fuel adjustment mechanism. The
22 degree for which a utility assumes full cost
23 recovery, fuel and purchased power capacity payments
24 under the regulatory mechanisms differ significantly
25 between companies.

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1 So it's not reasonable to conclude, simply
2 because some utility has some form of special rate
3 adjustment mechanism, that the investors or that
4 utility doesn't assume cost recovery exposure or risk
5 for its fuel and purchased power expenses.

6 So it would be necessary to do a detailed
7 analysis of the subject company to determine just how
8 much risk is inherent in those regulatory mechanisms,
9 but it wouldn't stop there. You also need to
10 consider variations in other risk aspects of those
11 companies in relationship to the subject company.
12 Because what Dr. Hadaway doesn't appear to recognize
13 is fuel cost recovery and purchased power cost
14 recovery isn't the only operating risk a utility
15 faces. There's actually many operating risks that a
16 utility faces and it's necessary to give
17 consideration to all of those risk factors in
18 identifying proxy companies which reasonably
19 approximate the investment risk of the subject
20 company, and that's precisely what we did in
21 PacifiCorp's last rate case, where we evaluated and
22 recommended a rate of return for PacifiCorp in
23 setting rates.

24 In the last rate case, I relied on Dr.
25 Hadaway's proxy group and found it to be a reasonable

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1 risk proxy group for PacifiCorp, and that was based
2 on PacifiCorp's risk that existed at that time, which
3 did not include a fuel adjustment mechanism.

4 So some of those other companies may have
5 had fuel adjustment mechanisms, but they had other
6 risk factors which PacifiCorp did not have. But when
7 you mix them all together, the proxy group as a whole
8 had comparable risk to PacifiCorp.

9 But now, if we implement a fuel adjustment
10 mechanism, PacifiCorp's operating risk will decline
11 relative to the group and the authorized -- the
12 return on equity I estimated from the last case would
13 be higher than reasonable for PacifiCorp, but lower
14 operating risk.

15 Q. Why didn't you carry out a more specific
16 granular analysis -- this is my last question -- of
17 the type you suggest based on all the operating risk
18 and financial risks of the company?

19 In your testimony out of -- I find it
20 curious that out of 13 pages, you devote three pages
21 to the ROE adjustment and most of your testimony is
22 devoted to the income tax adjustment issue. So I'm
23 just curious as to why you didn't carry out a more
24 detailed and granular analysis based on proxy groups,
25 a full assessment of risks, and things like that?

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1 A. Well, had the Company requested a return on
2 equity different from what the Commission just found
3 reasonable, I likely would have done that, but
4 because the Company was willing to accept that the
5 return on equity that the Commission found reasonable
6 just approximately one year ago, and capital market
7 costs haven't changed significantly since that time,
8 I thought it was reasonable to use what the
9 Commission found to be an appropriate return on
10 equity for PacifiCorp as a starting point.

11 With that understanding, the only adjustment
12 I needed to make was to adjust the authorized return
13 on equity for the reduction in risk if a PCAM is
14 adopted, so that's what I chose to do and that's why
15 my testimony is structured the way it is.

16 Q. Okay. Thank you, Mr. Gorman. That's all I
17 have.

18 A. Thank you.

19 JUDGE MOSS: Mr. Gorman, Chairman Sidran has
20 a question for you.

21

22 E X A M I N A T I O N

23 BY CHAIRMAN SIDRAN:

24 Q. Good afternoon, or evening, I guess. I'm
25 not sure where you are. Were you listening to Mr.

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1 Johnson's testimony, witness for Public Counsel?

2 A. The gentleman that was just on?

3 Q. Yes.

4 A. Yes, I was.

5 Q. All right. Now, when you do this comparison
6 of comparable companies in an effort to assess risk
7 and return, these are done on a Company-wide basis?
8 In other words, you look at PacifiCorp as a single
9 entity, including its East and West Control Areas; is
10 that correct?

11 A. Yeah, I looked at PacifiCorp the same way
12 their bond and equity investors would look at it, and
13 that's a consolidated entity, yes.

14 Q. Okay. So Mr. Johnson's point, in part, is
15 that a PCAM would not be appropriate for PacifiCorp,
16 because if you looked at it on a Company-wide basis,
17 there's a very -- relatively, I should say, small
18 risk related to volatility in the fuel cost and so on
19 that a PCAM would be intended to address. Did you
20 hear that testimony?

21 A. I haven't studied that aspect of his
22 testimony, but I did hear that, yes.

23 Q. Yeah. Well the thrust of it was that if you
24 looked at -- if you looked at it on a Company-wide
25 basis, it's a relatively small factor in the overall

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1 operations of the Company that would be addressed by
2 a PCAM in Washington State, both because of the
3 relative size of the hydro and because of the
4 allocation factor to Washington State operations.

5 So with that in mind, if there were a PCAM
6 to be approved for the Company, taking into account
7 Mr. Johnson's arguments why that's not appropriate,
8 if he's right, the Company-wide, it's a relatively
9 small factor in the Company's total financial
10 position, why would it justify a three-tenths percent
11 reduction in return?

12 A. Well, the issue is just that there is a
13 transfer in the fuel risk, and that transfer reduces
14 investors' risks, but also increases the potential
15 rate volatility that the retail customers will
16 assume.

17 So the question is is if there is a transfer
18 of risk, the stakeholder that has the risk reduced
19 should no longer be compensated for taking that risk
20 and the stakeholder that is assuming the risk should
21 be compensated for taking the risk. So generally
22 speaking, the implementation of a PCAM is going to do
23 that risk transfer.

24 Now, I think his question goes more towards
25 whether or not one is necessary, and typically

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1 non-traditional or special -- strike the
2 non-traditional -- special regulatory mechanisms to
3 shift the risk or to share the risk of things like
4 fuel and purchased power energy charges are typically
5 done only if a utility is not able to manage that
6 price exposure, that cost exposure.

7 So if his position is is the utility can
8 manage that price exposure, then it makes more sense
9 to leave that risk with the stakeholder that's best
10 able to manage it. Based on his testimony, as I
11 understand it, that would be the Company and the
12 shareholders. But to the extent the Company can't
13 manage that risk and it needs to share it, then
14 customers should be compensated for taking part of
15 that cost risk.

16 And my understanding is the Company believes
17 it can't manage that cost risk, and if that's the
18 case, then a return on equity adjustment should be
19 implemented with the implementation of a PCAM,
20 because customers will assume part of that risk and
21 should therefore be compensated in the form of
22 reduced rates.

23 Q. I guess what I'm driving at is, taking all
24 that you said, how, if you're looking at it on a
25 Company-wide basis and you, say for the sake of

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1 argument, assume that the effect of the PCAM on the
2 total Company operations is small, perhaps very
3 small, how do you arrive at what an appropriate
4 reduction in return on equity should be on a
5 Company-wide basis?

6 A. Well, I'm doing it generally with my market
7 pricing and my bond yield spread methodology. I
8 haven't done a detailed review of the volatility of
9 the Company's fuel mix or purchased power expenses.
10 I do know that, based on my review of credit reports,
11 that Standard and Poor's in particular believes that
12 an operating risk of this utility is regulatory
13 mechanisms in place to recover fuel cost and
14 purchased power cost. So to the extent a regulatory
15 mechanism is adopted, I think that would reduce this
16 Company's risk in a reasonably meaningful way.
17 Otherwise, Standard and Poor's wouldn't be spending
18 time in their reports identifying that risk
19 specifically.

20 So based on my review of the credit reports,
21 without a detailed review of the volatility of the
22 Company's fuel and revenue streams, it was my belief
23 that an appropriate return on equity adjustment of
24 around 30 basis points is reasonable.

25 CHAIRMAN SIDRAN: Thank you. That's all I

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1 have.

2 JUDGE MOSS: Nothing further for Mr. Gorman?

3 Okay. Thank you, Mr. Gorman. We appreciate your
4 testimony today, and you may, as it were, step down.

5 THE WITNESS: Thank you very much.

6 JUDGE MOSS: Yes, thank you. Is Mr.
7 Falkenberg on the phone?

8 MR. FALKENBERG: I'm here. Can you hear me?

9 MS. DAVISON: You need to speak up a little,
10 Randy.

11 MR. FALKENBERG: Yes, can you hear me?

12 MS. DAVISON: That's better.

13 MR. FALKENBERG: Okay, I'm here.

14 JUDGE MOSS: All right. See if you can
15 avoid speaking when motorcycles are going down the
16 interstate outside, too.

17 MR. FALKENBERG: All right.

18 JUDGE MOSS: Well, Mr. Falkenberg, it is a
19 little unusual, of course, to swear a witness over
20 the telephone, but we have done so in the past,
21 including the immediate past, and we'll do so again.
22 You will, of course, treat the oath with the same
23 degree of solemnity that you would were you present
24 here in the room with us.

25 Whereupon,

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1 Nostrand, are you going to do the questioning?

2 MR. VAN NOSTRAND: Yes, Your Honor.

3 JUDGE MOSS: Go right ahead.

4

5 C R O S S - E X A M I N A T I O N

6 BY MR. VAN NOSTRAND:

7 Q. Good afternoon, Mr. Falkenberg.

8 A. Good afternoon.

9 Q. Sorry you can't make the trip out here to
10 Olympia, but we'll try to get through this as quickly
11 as we can.

12 I wanted to focus on the one aspect of your
13 testimony that we weren't able to address in our
14 rebuttal, and that relates to your discussion
15 regarding the treatment of the Centralia sale, and in
16 particular the errata pages, which were filed with
17 the Commission on your behalf on March 13th. Are you
18 familiar with those errata pages?

19 A. Yes.

20 Q. Were you proposing in your testimony, on
21 page 39, you would allocate 50 percent of the
22 additional replacement power to the Company to
23 correspond with the allocation of 50/50 gain of the
24 Centralia proceeds from the Centralia order? Is that
25 my understanding of your original proposal?

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1 A. Well, that was the original testimony, which
2 was corrected to say the appreciation, instead of the
3 word gain.

4 Q. So do I understand from this correction that
5 you now understand that in the Centralia order, it
6 was the appreciation portion of the proceeds that was
7 allocated 50/50 and not the gain; correct?

8 A. Well, the gain, I guess, is -- when I wrote
9 the testimony, I was thinking really of the gain and
10 the appreciation as being the same sort of thing, but
11 in reading, thinking about it after the rebuttal that
12 Mr. Wrigley had filed, I realized that there was a
13 mischaracterization, if you will, of the gain in my
14 testimony, and it really goes to the Commission's
15 order in the Centralia case.

16 And in the order, the Commission said that
17 the appreciation of the plant, which is the
18 difference between the book value -- or excuse me,
19 the difference between the price and the installed
20 cost should be allocated 50/50 to ratepayers and
21 shareholders on the basis of a risk-sharing that the
22 Commission articulated in the order.

23 Now, the difference between the book value
24 and the installed cost, which is the accumulated
25 appreciation, the Commission viewed that as something

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1 that should be returned to ratepayers, because it was
2 not -- in other words, it meant the depreciation was
3 never really needed. The customers overcompensated
4 for the depreciation, so the Commission wanted to
5 return that.

6 So the gain, if you will, is really two
7 parts, in the sense that one part is appreciation and
8 the other part is the accumulated depreciation. And
9 the risk-sharing argument really applied only to the
10 appreciation component of that, so I realized I had
11 to correct that in my testimony or it would be
12 misleading and really incorrect with regard to the
13 Commission's treatment of that issue.

14 Q. So the portion of the gain representing the
15 difference between the net book cost and the original
16 cost was allocated one hundred percent to customers;
17 correct?

18 A. That's right, it was a return of the
19 depreciation, because the Commission realized that no
20 depreciation really was necessary. It was, in
21 effect, an excess compensation to the Company for
22 depreciation that never really took place.

23 Q. And it was only the portion in excess of the
24 original book value up to the proceeds that was --
25 that portion referred to as appreciation was

0315

1 allocated 50/50; correct?

2 A. That's right, and that was the portion to
3 which the Commission applied the risk-sharing
4 argument based on (inaudible).

5 JUDGE MOSS: Could you repeat that answer,
6 please, Mr. Falkenberg?

7 THE WITNESS: I hope I can repeat it exactly
8 as I said it, but the appreciation was the difference
9 between the market price and the installed cost, and
10 the Commission allocated that 50/50 between
11 ratepayers and shareholders on the basis of its
12 risk-sharing argument, which it articulated in the
13 order and there was a citation to (inaudible).

14 THE REPORTER: I can't hear him.

15 JUDGE MOSS: The Democratic Central
16 Committee was the main case, was his testimony. And
17 do keep your voice up, if you can, Mr. Falkenberg.

18 THE WITNESS: Yes, sir.

19 Q. Now, Mr. Wrigley's testimony calculates that
20 if we focus on the gain, which was the term you
21 originally used in your testimony, that, in fact,
22 that gain was allocated 87 and a half percent to
23 customers and 12 and a half percent to shareholders;
24 correct?

25 A. That's Mr. Wrigley's rebuttal testimony, and

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1 I don't dispute his math, but the risk-sharing
2 argument applied only to depreciation, so I don't
3 think it's an apples to apples comparison.

4 Q. But it's fair to say that you propose an
5 adjustment to share the cost 50/50, based on your
6 understanding that the gain was allocated 50/50 in
7 the Centralia order, and when it turns out the gain
8 was actually allocated 87/12 and a half, you simply
9 substitute the term appreciation in your testimony
10 for gain and continue on with your previous
11 adjustment; is that fair to say?

12 A. Well, I think what's fair to say is -- I'm
13 sorry. Was there an objection?

14 Q. No.

15 A. Okay. What I think is fair to say is that
16 the Commission viewed risk-sharing in terms of the
17 appreciation. And the appreciation was split 50/50,
18 so I believe that the risk-sharing should be applied
19 50/50. So really it was just the incorrect selection
20 of words that I had in my testimony.

21 Q. But there was a clear distinction between
22 the term appreciation and gain on the Centralia
23 order; correct?

24 A. I believe that's correct, yes.

25 MR. VAN NOSTRAND: Thank you. I have no

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1 further questions, Your Honor.

2 JUDGE MOSS: All right. Thank you. And Mr.
3 Trotter, do you have questions?

4 MR. TROTTER: One moment, Your Honor. No
5 questions.

6 JUDGE MOSS: Thank you. Any questions from
7 the Bench? All right. Anything further? No, all
8 right. Mr. Falkenberg, that apparently completes
9 your examination today. We appreciate you making
10 yourself available.

11 THE WITNESS: Okay. Thank you.

12 JUDGE MOSS: Thank you. All right. All
13 right. I believe, then, that will bring us to Staff.

14 MR. SCHOOLEY: Me or Buckley?

15 JUDGE MOSS: I have you first, Mr. Schooley.
16 Do you need a moment?

17 MR. SCHOOLEY: No, I'm okay.

18 Whereupon,

19 THOMAS E. SCHOOLEY,
20 having been first duly sworn by Judge Moss, was
21 called as a witness herein and was examined and
22 testified as follows:

23 JUDGE MOSS: Thank you. Please be seated.
24 Mr. Trotter.

25 MR. TROTTER: Thank you, Your Honor.

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1 JUDGE MOSS: Or if there's no objection, we
2 can just stipulate. No objection. All right. We'll
3 stipulate to Mr. Schooley's exhibits, Numbers 321
4 through 328, and make Mr. Schooley available for
5 cross-examination.

6 And I believe -- let's see, the Company
7 waived, and so I believe there are going to be
8 questions from the Bench. Commissioner Oshie, did
9 you have questions for this witness?

10 COMMISSIONER OSHIE: Yes, Judge Moss, I
11 believe I do. I'm trying to find the place.

12

13 E X A M I N A T I O N

14 BY COMMISSIONER OSHIE:

15 Q. Mr. Schooley, my question is I guess, in
16 general context, the same question that I asked Mr.
17 Wrigley, with the focus on your investor-supplied
18 working capital analysis.

19 And my question really is, when you did your
20 analysis of the investor-supplied working capital
21 that formed the basis of your recommendation in this
22 case, did you look at the -- did you do the analysis
23 based upon a Western Control Area and Eastern Control
24 Area scenario or did you do a total company analysis
25 and then allocate a percentage of the total company

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1 to Washington?

2 A. I did not look at a divvying up of the
3 resources or the rate base between control areas. I
4 did do it on a total company basis and, in the end,
5 applied the system operations factor, which, under
6 the Western Control Area, is some basis points less
7 than otherwise, so I don't know if that captures it,
8 but it is based on plant and Washington's portion of
9 the system under the Western Control Area is less
10 than it would be if you were looking either at a
11 system-wide similar allocation based on plant only or
12 on the revised protocol. So we've -- I'm not -- I
13 think that captures it to a certain degree.

14 Q. It captures it to a certain degree meaning
15 that it's not -- it would not be accurate under the
16 pure Western Control Area analysis, but it's close?
17 Is that your testimony?

18 A. I think it's representative, but I think
19 that presents an interesting exercise in how to
20 determine that the investor-supplied capital is to be
21 allocated or divvied up between Washington's rate
22 base versus everybody else's rate base versus the
23 plant or assets that serve the non-operations or the
24 non-operating portion of the Company.

25 Q. And do you have an opinion as to, given, you

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1 know, the same issue that apparently exists with
2 regard to the allocation of resources, East or West,
3 and Mr. Wrigley's lead lag study that he sponsored,
4 is the Staff-sponsored analytical treatment, is that,
5 in your opinion, given the -- use the term infirmity
6 in both methods, is Staff's method more accurate than
7 the Company's? That's if you have an opinion on
8 that, and if you don't, then you can certainly
9 testify to that.

10 A. I think Staff's would be more accurate in
11 that sense, because we have used actual accounting
12 data and we've used an actual means to calculate an
13 allocation factor. I think the Company's 2003 study,
14 which has only been updated for the total expenses of
15 the Company and then reassigned to Washington, is
16 less accurate in that sense.

17 Q. Well, is it less accurate because you have a
18 dispute with the use of a lead lag study or is it
19 less accurate because it is -- it is more incorrect
20 in its calculation if your interest is to divide
21 those -- the investor-supplied working capital
22 between the Western Control Area and the Eastern
23 Control Area?

24 A. I think both. I think it is inaccurate in
25 and of itself in that a heavy portion of the lead lag

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1 study is, in part, the coal supply and the coal
2 purchases and how those are divided up, and the
3 Western Control Area has a much smaller piece of the
4 coal plants.

5 The other accounts payable and other expense
6 sides, I think, would be more weighted towards the
7 Eastern side, as well, so I think it is probably
8 over-assigning working capital to Washington on that
9 basis.

10 Q. And I think you used the term operations
11 factor, which was your method of allocating from the
12 total Company Washington share of your -- of the
13 investor-supplied working capital. What do you mean
14 by that?

15 A. In the investor-supplied working capital,
16 you must look at how much of the rate base in total
17 is serving utility operations versus what is
18 non-utility and divide up the result by that factor,
19 by how much is allocated to either portion.

20 Q. And so how did you calculate Washington's
21 share of that, I mean, in general terms?

22 A. That is looking at the rate base items or
23 the assets within the corporation and determining
24 whether they are utility-related or non-utility
25 related, and then taking a ratio of those two for the

0322

1 total.

2 Q. And that was done on total company basis
3 with an allocation factor that was based upon --

4 A. Upon just within itself, that the
5 non-operations -- non-operating assets are then --
6 its portion of the total is then applied to the
7 investor-supplied results and the working capital is
8 allocated proportionately.

9 COMMISSIONER OSHIE: Thank you.

10 JUDGE MOSS: Mr. Trotter? All right.

11 COMMISSIONER JONES: Judge.

12 JUDGE MOSS: Oh, I'm sorry, Commissioner
13 Jones. I thought only Commissioner Oshie had
14 questions.

15

16 E X A M I N A T I O N

17 BY COMMISSIONER JONES:

18 Q. Just a little bit of follow-up to
19 Commissioner Oshie's questions. Now, why didn't you
20 use the grid methodology or the methodology proposed
21 in this case to -- it's probably inappropriate, but
22 I'm getting confused by the number of methodologies
23 we're using to try to separate cost and now to
24 separate a balance sheet and working capital. Was
25 there -- could that be used at all?

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1 A. Grid is only applied to the variable power
2 cost. It does not apply to the assets or rate base
3 items.

4 Q. So where did you get this applied systems
5 operations factor? I think you answered Commissioner
6 Oshie, but I'm still a little bit confused where you
7 selected this if --

8 A. That is derived by Washington's plant as a
9 portion of the total system plant.

10 Q. Based on the results of operations and the
11 Commission basis report submitted annually or --

12 A. In part. It does change as the ratios
13 change, but it is Washington's allocated piece of the
14 transmission plant, Washington's allocated piece of
15 the -- just production plant and Washington's
16 distribution plant, which is situs assigned, and
17 you'd add all those up as a portion of the total.

18 And so as you change allocation factors or
19 allocation methods, such as from modified accord to
20 the revised protocol to the Western Control Area, all
21 else being equal, our portion of the system
22 operations would also change because we have had
23 differing proportions of particularly the production
24 plant and transmission plant. So it is a sliding --
25 a number that moves back and forth as you change the

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1 allocation system itself.

2 Q. And this number changes. One of the
3 criticisms of the company, of the ISWC,
4 investor-supplied working capital, is that it's a
5 static analysis; correct?

6 A. Well, their point is --

7 Q. It's based on the balance sheet; correct?

8 A. It's based on the balance sheet, it's based
9 on the monthly balance sheets and the average of
10 those months. So I don't -- but it is real
11 accounting data. It's not the assumptions that are
12 used in the lead lag study, such as they selected
13 three of the months in which to analyze the revenue
14 income. They did not appear to use all of the coal
15 plant studies. It's not everything, as they sort of
16 imply it to be. It is a sampling of the operations
17 in order to determine the leads and lags.

18 Q. In your testimony on page 23, you state that
19 at least three other states currently use a balance
20 sheet method, Idaho, Michigan and Florida.

21 A. Yes.

22 Q. And then you cite a footnote regarding
23 Idaho, that it is based on information provided by
24 Idaho PUC Staff. Have you read an order issued by
25 the Idaho PUC where they actually cite

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1 investor-supplied working capital as the approved
2 working capital methodology for that Commission?

3 A. No, I haven't.

4 Q. Okay. Turning to page 37, on your treatment
5 of executive severance payments, I just have one
6 question there. On page 37, lines 11 through 16,
7 just so I understand how you calculated the deferral
8 expense for these executives, you calculated them
9 based on two factors. One was 88 percent of their
10 annual wage on average, so you took an average of all
11 the non-executive severance packages, and then you
12 applied the April 2006 date as the date after which
13 they received severance.

14 Can you define annual wage on average?
15 What's included in that? Are bonuses, restricted
16 stock, medical, deferred taxes?

17 A. In Exhibit 326-C, it itemizes the annual
18 savings --

19 Q. Okay.

20 A. -- and the severance package, and it is the
21 annual savings that is the total wages for each of
22 the employees listed, which includes all that stuff.

23 Q. So it includes --

24 A. And the loaded portion of the benefits, as
25 well.

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1 Q. I see. So when you say, quote, all that
2 stuff that is included -- I don't see all that stuff
3 in any of these lines that I --

4 A. No, it's not itemized as such. It is the
5 annual savings for the dismissal of that employee.
6 So their --

7 Q. So what you did, Mr. Schooley, you just took
8 a simple percentage of savings compared to total?

9 A. Yes.

10 Q. Total cost or total annual wage, and that
11 came out at 88 percent?

12 A. Yes.

13 COMMISSIONER JONES: Okay. That's all I
14 have. Thank you.

15 JUDGE MOSS: All right. Nothing further
16 from the Bench? Mr. Trotter, still the answer from
17 you is no, I take it?

18 MR. TROTTER: That's correct.

19 JUDGE MOSS: Allright. Well, Mr. Schooley,
20 we thank you for being here, and now you may step
21 down.

22 Let's see. For Mr. Buckley, who is our last
23 witness, does Public Counsel still have 30 minutes,
24 or has that shortened, Mr. ffitch?

25 MR. FFITCH: It might be a bit shorter, Your

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1 Honor. I think -- are we the only remaining -- the
2 last person standing?

3 JUDGE MOSS: No, I'm going to move on once I
4 have your answer. Is it going to be shorter than 30
5 minutes or not?

6 MR. FFITCH: Right now it looks like it's
7 close to -- a little bit less perhaps, but --

8 JUDGE MOSS: All right. How about ICNU?

9 MS. DAVISON: We are probably 15, 20
10 minutes.

11 JUDGE MOSS: All right. You all want to
12 finish today, then? Barb, are you good for another
13 hour, if necessary?

14 THE REPORTER: Yes.

15 Whereupon,

16 ALAN P. BUCKLEY,
17 having been first duly sworn by Judge Moss, was
18 called as a witness herein and was examined and
19 testified as follows:

20 JUDGE MOSS: Thank you. Please be seated.
21 And absent objection, let's dispense with the
22 foundation questions and just stipulate the exhibits
23 in. Hearing no objection, we'll do that, Exhibits
24 261 through 265 for Mr. Buckley, and I suppose if we
25 follow our order consistently here, then you'll go

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1 first, Ms. Davison.

2 MS. DAVISON: Thank you, Your Honor.

3

4 C R O S S - E X A M I N A T I O N

5 BY MS. DAVISON:

6 Q. Good afternoon, Mr. Buckley. I will jump
7 right in. Does the West Control Area method result
8 in Washington having higher or lower power costs than
9 the Eastern states?

10 A. I don't know. It's -- if we go on the
11 evidence out of the grid model is that the net power
12 cost from the grid model, meaning variable power
13 cost, is greater.

14 Q. In the West?

15 A. In the West.

16 Q. Thank you. Does it raise any concern for
17 you that the Western Control Area method makes
18 Washington a higher-cost state in terms of power
19 costs than Utah?

20 A. No, because I don't agree with your premise
21 that it's higher. Like I said before previously, the
22 net power cost, variable power cost is indeed higher,
23 but when you consider the overall power cost and the
24 overall rates, I think we're very competitive with
25 Utah. And in fact, I believe we're lower. Again,

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1 you have to consider the total package of variable
2 power cost and the fixed cost and the returned
3 associated rate base from that.

4 Q. Do you recall in the 2003 rate case that
5 PacifiCorp claimed that there are control area
6 exchange contracts that allow power to be delivered
7 in one area and returned in another, effectively
8 transferring power without requiring transmission?

9 A. Yes.

10 Q. If PacifiCorp could transfer power without
11 requiring transmission, would this produce a direct
12 or indirect benefit to Washington?

13 A. Can you give me the specifics of the power
14 transfer or a hypothetical one?

15 Q. Well, I'm not sure that it really requires a
16 hypothetical. It just assumes that, as you said,
17 that basically power can be exchanged without
18 requiring transmission. Wouldn't you agree that that
19 would result in a benefit to Washington ratepayers if
20 that occurred?

21 A. It may.

22 Q. Does PacifiCorp's proposed West Control Area
23 allocate any direct or indirect benefits of these
24 exchange contracts to Washington?

25 A. Under the present portfolio of resources

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1 that are in the WCA model, I don't believe there are
2 any exchanges included in there.

3 Q. Did you propose any revision to the West
4 Control Area method to account for the control area
5 exchange contracts in this case?

6 A. Not explicitly that type contract. I
7 proposed an adjustment related to potential sales
8 into the Eastern Control Area, but did not at this
9 time consider the effect of an exchange in the
10 traditional type exchange that I think we're talking
11 about.

12 Q. Thank you. Does the Company's proposed West
13 Control Area method model any transactions occurring
14 between the control areas?

15 A. The Company's proposal?

16 Q. Yes.

17 A. No. Well, let me back up on that. It
18 doesn't explicitly model them. What it does do is it
19 balances the portfolio within the Western Control
20 Area and uses the hubs that are in the West to do
21 that balancing. So it's just a function of how their
22 proposal was set together, is it is making
23 transactions, but the model simply is using some
24 pricing that's based on different market hubs that
25 are located in the West.

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1 Q. Right, but you understand that one of Mr.
2 Falkenberg's criticisms of the West Control Area is
3 that it doesn't model any transactions between the
4 East and West Control Areas?

5 A. Yes, I do, and under Staff's proposal we at
6 least added in a sale possibility into the Eastern
7 Control Area.

8 Q. Do you agree that there are valuable
9 interconnection benefits between the East and West
10 Control Areas?

11 A. I think it depends on how you define
12 valuable. There certainly are interconnections
13 between East and West. Nobody's denying that they
14 exist and have existed. How valuable they are I
15 think depends on, you know, kind of the net
16 transactions and how they're accounted for between
17 the two control areas, but they are there, there are
18 some there, there's no doubt.

19 MS. DAVISON: Thank you. I have no further
20 questions.

21 JUDGE MOSS: Thank you, Ms. Davison. And
22 that brings us to you, Mr. ffitch.

23 MR. FFITCH: Thank you, Your Honor.

24

25 C R O S S - E X A M I N A T I O N

0332

1 BY MR. FFITCH:

2 Q. Good afternoon, Mr. Buckley.

3 A. Good afternoon.

4 Q. Could you please turn to your direct
5 testimony, which is Exhibit 261, go to page 34?

6 A. Yes.

7 Q. Do you have that?

8 A. Yes, I do.

9 Q. I want to ask you some questions about the
10 PCA issue. The question starts at line 18. At page
11 34, line 18, you're asked, Does the level of net
12 power supply expense variation you have described
13 support the implementation of a PCAM for PacifiCorp?
14 And you've stated yes; correct?

15 A. That's right.

16 Q. In line 20, you say that that is because the
17 Company is subject to significant variability in net
18 power supply expenses; is that right?

19 A. Yes, it is.

20 Q. And so it would follow, would it not, that
21 if the Company was not subject to significant
22 variability, that it would not be appropriate for a
23 PCA?

24 A. I think the Company is subject to a
25 significant variability in the Western Control Area.

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1 Q. Well, let me ask the question again. If the
2 Company were not subject to significant variability,
3 if the level of significant -- if the level of
4 variability was below the significant level, would
5 you still be recommending that it's appropriate for
6 implementation of a PCA?

7 A. Are you talking about the variability in net
8 power supply cost or in hydro?

9 Q. The net power supply expense variation.

10 A. Yes.

11 Q. The question that you've been asked here.

12 A. I think if you said, for example, that there
13 was no variability in net power supply expense,
14 that's different than no variability in hydro
15 conditions, that then that would perhaps put a
16 different light on a PCA.

17 Q. So you would agree that there is a level
18 below the significant level, a non-significant level
19 of variability under which a company should not be
20 given a PCA, would you not?

21 A. Yes, I would believe it would be closer to
22 zero than it would be significant.

23 Q. Now, if we turn the page to page 35, if you
24 look at line one, you state there, do you not, that,
25 However, the Commission should be aware that these

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1 examples and amounts of variability I have described
2 are, quote, extreme examples. That was your
3 testimony; correct?

4 A. Yes.

5 Q. Then you go on to say that there's a low
6 probability of those examples happening, and that the
7 actual variability is lower. Is that an accurate
8 paraphrase of your testimony?

9 A. I believe what I'm talking about here is
10 variability in water conditions and limiting it to
11 that. There are other items, which are variable,
12 which can also affect the variability in the net
13 power supply cost.

14 Q. All right.

15 A. Significantly.

16 Q. And current rates take variability into
17 account already through the normalization of -- let's
18 start with hydro?

19 A. In my opinion, that's one of the big
20 questions here and one of the big benefits of having
21 a PCA or PCAM in the case of PacifiCorp, is that --

22 Q. Okay. Mr. Buckley --

23 MR. TROTTER: Whoa, excuse me, I'd ask that
24 Counsel not interrupt the witness, that he either --
25 that he address his comments to the Bench, Your

0335

1 Honor.

2 JUDGE MOSS: Were you finished with your
3 answer, Mr. Buckley?

4 THE WITNESS: Go ahead.

5 MR. FFITCH: I'd like the witness to answer
6 the question first, which is --

7 MR. TROTTER: Can we have it reread?

8 THE WITNESS: Please reread it.

9 (Record read back.)

10 THE WITNESS: I believe that current rates
11 take into effect in some manner, not necessarily
12 correctly, the variability in cost.

13 Q. All right. That's the purpose of
14 normalization; isn't that correct? You may disagree
15 with how effective normalization is, but the purpose
16 of normalization is to take into account variability,
17 for example, of hydro; correct?

18 A. The purpose of normalization is to develop
19 rates, which is based on a long-term look at the
20 probability of a number of areas' factors occurring,
21 and I have problems with the normalization procedure,
22 which is one of the reasons why I support a PCAM for
23 this company. But yes, it does -- is one way the
24 Commission has handled variability in cost, which,
25 again, the problems with that is one reason why I'm

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1 proposing the PCAM.

2 Q. Staff's not generally withdrawing this
3 afternoon in your testimony its support for
4 normalization, is it?

5 A. Staff or me? I have my opinions on whether
6 normalization is an appropriate procedure right now,
7 and I believe that the PCA mechanisms that we're
8 establishing with the companies is a replacement
9 mechanism. It can certainly help eliminate some of
10 the problems we've had in the past doing normalized
11 net power supply expense. I've been doing normalized
12 net power supply expense now for 20 years. I can
13 guarantee you there's many problems with that
14 procedure and that, having a PCA mechanism, whichever
15 way you call it, addresses many of those problems.

16 Q. From a rate-making methodology perspective,
17 setting aside your personal opinion, normalization is
18 a mechanism that this Commission has used and the
19 Staff has supported for many years as a way of
20 dealing with variability in costs; isn't that
21 correct?

22 A. Yes.

23 Q. Now, let's stay on that same page of your
24 testimony and let's look at line nine. And there you
25 say it's helpful to describe what companies may do in

0337

1 the absence of a PCAM, and you go on to talk about
2 how they can deal with these extreme examples of
3 variability; correct?

4 A. Yes.

5 Q. And there you give a couple of examples --
6 well, if we go down to line 15 through 17, you refer
7 to deferrals or interim rate relief as remedies that
8 companies can request to deal with extreme power cost
9 spikes; correct?

10 A. Yes, it's another procedural remedy that
11 they have to address those costs.

12 Q. What was the last time that PacifiCorp
13 requested interim rate relief in Washington State?

14 A. I don't know.

15 Q. Do you know if they've requested interim
16 rate relief within the last ten years?

17 A. No, I remember, at the very end of the power
18 crisis, the Company came in and filed a case
19 requesting deferral of excess power cost related to
20 the energy crisis, but I don't remember if that was
21 done under interim rate relief or not.

22 Q. All right. Can you turn, please, to page
23 38? And go to lines 17 through 20. And there you
24 say, However, I also recommend that the Company
25 explore internal accounting methods, by which actual

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1 Western Control Area-related transactions can be
2 tracked for purposes of determining actual net power
3 costs for use in calculating PCAM variations. Isn't
4 that your testimony?

5 A. Yes, it is.

6 Q. And you say that because, as you note just
7 above, PacifiCorp's not using actual power costs in
8 this case for the PCAM; they're proposing to use
9 adjusted actual, so-called adjusted actual or
10 pseudo-actual costs based on the grid model; correct?

11 A. They're proposing that methodology, in part
12 of our own making of what -- the way the Company
13 operates their system.

14 Q. All right. And your testimony here is
15 stating that you're not entirely comfortable with
16 that approach and you recommend that they explore an
17 alternative so that they can use actual power costs;
18 correct?

19 A. Yes.

20 Q. And you indicate in this testimony that the
21 Company should explore internal accounting methods.

22 That's line 18 that we've just read?

23 A. We established that, yes.

24 Q. Right. Do you have a proposal about how or
25 when that would occur?

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1 A. I think it would start immediately. I think
2 the Company is very aware of the concerns I have and
3 others have over true comparisons of actuals and
4 actuals, that the PCAs with the other companies do
5 not have those problems and, for various reasons, and
6 they're aware of the problem and they've expressed
7 their willingness to work to try to alleviate the
8 problem.

9 Q. And when's that problem going to be fixed?

10 A. I don't have a time frame for you.

11 Q. All right.

12 A. I can't say that.

13 Q. So in the meantime, the problem is the
14 ratepayers' if the PCAM is approved under the current
15 pseudo-actual mechanism?

16 A. I think -- yes, and I think that problem is
17 pretty minimal in the context of the whole proposal.

18 MR. FFITCH: Those are all the questions I
19 have, Your Honor.

20 JUDGE MOSS: Thank you, Mr. ffitich.
21 Anything from the Bench for Mr. Buckley? All right,
22 Mr. Buckley --

23 MR. TROTTER: I have a few questions, Your
24 Honor. Thank you.

25 JUDGE MOSS: Yeah. I keep trying to shut

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1 you people off, but it doesn't work.

2

3 R E D I R E C T E X A M I N A T I O N

4 BY MR. TROTTER:

5 Q. Counsel for ICNU asked you about exchange
6 contracts. Do you recall those questions?

7 A. Yes.

8 Q. And I believe she referred you to a 2003
9 docket, if I'm not mistaken. Has any party
10 identified any such contracts currently in this case?

11 A. I do not recall if the ICNU witness, Mr.
12 Falkenberg, has or not.

13 Q. You also agreed with ICNU's counsel that
14 there were some interconnection benefits or some
15 benefits between the two control areas due to
16 interconnections. In your opinion, does that mean
17 the Western Control Area model should not be
18 accepted?

19 A. Well, first of all, I think I agreed that
20 there are interconnections between the two control
21 areas.

22 Q. I see.

23 A. Whether there are benefits, net benefits, it
24 depends on what's being measured and what you're
25 looking at and how they're structured between the two

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1 control areas. That's what I agreed to.

2 Q. Okay. Now, does the existence of
3 interconnection between the two control areas mean
4 that the Western Control Area model should not be
5 used?

6 A. No, no, as I stated in my testimony, I've
7 proposed, in addition to it, another market hub that
8 addresses sales into the Eastern Control Area, if you
9 will, and also in the answering testimony, I also,
10 you know, brought up the concept of perhaps creating,
11 you know, another bubble, if appropriate, to handle
12 any economic purchases from the East, if there are
13 indeed any. Those can all be handled within the WCA
14 model.

15 Q. Public Counsel asked you about the
16 normalization -- power cost normalization in rate
17 cases, and you said you've been doing that for 20
18 years; is that right?

19 A. Yes.

20 Q. Does that process deal with all variability
21 of power costs for a utility?

22 A. No.

23 Q. And you indicated that there were some
24 problems with the normalization process. Without
25 giving us the entire list, could you give us some

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1 significant examples?

2 A. To try to be brief, what I found is, one, we
3 have in the past argued many times over what and how
4 many water years should be incorporated into a
5 normalized net power supply cost study. That's been
6 a big issue. Also from a power supply analyst
7 position, it becomes a problem when you start talking
8 about having to identify costs that occur in the
9 extreme years or even some years that aren't so
10 extreme, related to droughts or high water years.

11 So as you include more -- all these water
12 years in it and you're including the whole package in
13 your normalization determination, I think you have a
14 lot of unknowns that are embedded in that rate that
15 we all have been trying to get for the last 20 years
16 that I've worked on it. And my -- I guess my
17 discussion about the benefits of at least having a
18 PCA is, under all of the proposals that we have with
19 all of our electric companies, it makes the
20 rate-setting process, I think, more efficient and
21 easier to not worry about those extreme years. We do
22 not need to address or fine-tune the numbers and the
23 assumptions on those, but they are addressed when
24 they come in in the PCAM or PCA or ERAM, whichever
25 one we're talking about.

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1 In the meantime, we can concentrate on the
2 costs that are more typically, you know, in the
3 average range, and I think that allows us to better
4 set rates, and in the case of my proposal, there's a
5 proposed rate adjustment related to that of about one
6 and a half million dollars. I think that's the
7 benefit of turning away from our history of
8 normalized long-term power supply and incorporating
9 PCAs into the rate-setting process.

10 MR. TROTTER: Those are all my questions.
11 Thank you, Mr. Buckley.

12 JUDGE MOSS: All right. It appears, then,
13 that we are finished with you, Mr. Buckley. We
14 appreciate you being here today and giving your
15 testimony. I do believe that completes our witness
16 list.

17 Let me ask the parties if there's any other
18 matter? We do have some housekeeping. Any other
19 matter for which the Commissioners need to be here?
20 Anything you need them to hear before we let them go?
21 All right. Fine. Well, let's let them go and do
22 other things, and we'll wrap up with a few little
23 things.

24 First of all, there may be some exhibits
25 that I have not mentioned in the course of today's

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1 proceedings. To the extent they have not been
2 expressly eliminated from the case, I'm going to
3 treat those as stipulated in.

4 I do have one question in that regard, and
5 this takes us back to Mr. Reiten. We had stipulated
6 in all but three of the ICNU cross exhibits before we
7 more or less dispensed with this as something we
8 could resolve in this case. Was it your intention,
9 Ms. Davison, that those would be withdrawn, as well
10 as the rest? Okay. That is what I thought, but I
11 wanted to confirm that with you.

12 All right. Then, otherwise, the exhibits on
13 our exhibit list are admitted as marked. And Mr.
14 Ffitch asked me earlier this morning about the public
15 comments, which we normally make an exhibit in the
16 proceeding. Mr. Ffitch, we'll make that Number 1.

17 MR. FFITCH: Thank you, Your Honor.

18 JUDGE MOSS: And you'll provide that in the
19 next day or so?

20 MR. FFITCH: Your Honor, I'm working with
21 public affairs staff. Because of the prior schedule
22 of the case, I indicated to them that I needed to
23 have everything on Thursday.

24 JUDGE MOSS: All right. Early next week is
25 fine with me.

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1 MR. FFITCH: All right. We will -- we
2 should be able to get it filed on Monday. And I will
3 ask how many copies for the Bench and the parties.
4 Sometimes some of the parties don't want the -- a
5 copy of the exhibit. So -- and to be honest, I'm not
6 sure the total size of the exhibit as of this point,
7 but sometimes it's voluminous, so --

8 JUDGE MOSS: Right. You'll file that?

9 MR. FFITCH: I would file an original and as
10 many copies as the Bench would like.

11 JUDGE MOSS: One.

12 MR. FFITCH: Original and one for the Bench,
13 and then I guess if we could poll the parties, Your
14 Honor, I could figure out what kind of service we
15 need.

16 MR. VAN NOSTRAND: We would like one.

17 MR. FFITCH: One for the -- let's see.
18 Okay.

19 MR. TROTTER: We'll just use the filed copy.

20 MR. FFITCH: ICNU?

21 MS. DAVISON: (Shaking head.)

22 MR. PURDY: Simon, let me call Chuck Ebert
23 real quick after we leave here.

24 MR. FFITCH: So original and one for the
25 Bench, one for the Company, ICNU no, Energy Project

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1 will contact us.

2 MR. TROTTER: Are we off the record, Your
3 Honor?

4 JUDGE MOSS: Yeah. Well, actually, I
5 haven't said that we're off the record, so I imagine
6 that we're still recording.

7 Let's see if there is anything else we need
8 to do on the record. I think that takes care of the
9 evidentiary record. I've got the exhibits taken care
10 of. Anything else from anyone? Mr. Trotter, did you
11 have something?

12 MR. TROTTER: We can be off the record.

13 JUDGE MOSS: All right. Let's go off.

14 We'll be off.

15 (Discussion off the record.)

16 JUDGE MOSS: Let's be back on the record
17 briefly. Off the record we discussed our
18 post-hearing process. We are going to allow for
19 ten-page reply briefs to be filed by May 7th. Did we
20 agree to electronic filing of briefs at the outset of
21 this process or not, or do the parties care? Do you
22 want that?

23 MR. FFITCH: I would request it, yes, Your
24 Honor.

25 MR. VAN NOSTRAND: Yes.

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1 JUDGE MOSS: All right. You all know the
2 drill. Electronic, I need those early in the day,
3 say by 2:00 on the dates we've indicated for brief,
4 and then, of course, the hard copy the next day.

5 I would just like to commend all counsel,
6 parties, participants on their very efficient use of
7 their own time and the Commission's time today. We
8 finished what was slated to be a several-day hearing
9 in a single day, and I think you all did a very
10 excellent job and I appreciate it. With that, the
11 record is closed and I'll await your briefs.

12 (Proceedings adjourned at 5:02 p.m.)

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