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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)Docket UE-032065
Complainant,)Volume III
)Pages 109-298
v.)
)
PACIFICORP d/b/a PACIFIC POWER &)
LIGHT COMPANY,)
Respondent.)

A hearing in the above-entitled matter was held at 9:37 a.m. on Thursday, September 9, 2004, at 1300 South Evergreen Park Drive, Southwest, Olympia, Washington, before Administrative Law Judge DENNIS J. MOSS, Chairwoman MARILYN SHOWALTER, Commissioner RICHARD HEMSTAD, and Commissioner PATRICK OSHIE.

The parties present were as follows:

COMMISSION STAFF, by Shannon Smith, Assistant Attorney General, 1400 S. Evergreen Park Drive, S.W., P.O. Box 40128, Olympia, Washington, 98504-1028.

PACIFICORP, by James Van Nostrand, Stephen C. Hall, and George M. Galloway, Attorneys at Law, Stoel Rives, LLP, 900 S.W. Fifth Avenue, Suite 2600, Portland, Oregon 97204.

Barbara L. Nelson, CCR
Court Reporter

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1 PUBLIC COUNSEL, by Robert Cromwell,
Assistant Attorney General, 900 Fourth Avenue, Suite
2 2000, Seattle, Washington 98164.

3 INDUSTRIAL CUSTOMERS OF NORTHWEST
UTILITIES, by Melinda Davison and Irion Sanger,
4 Attorneys at Law, Davison Van Cleve, P.C., 1000 S.W.
Broadway, Suite 2460, Portland, Oregon 97205.

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1 JUDGE MOSS: Let's 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. We are convened this
5 morning in the matter styled Washington Utilities and
6 Transportation Commission against PacifiCorp, doing
7 business as Pacific Power and Light Company, Docket
8 Number UE-032065.

9 The purpose of our gathering is to have our
10 evidentiary proceedings that are something of a
11 hybrid, I suppose, focused on the settlement that was
12 filed as between Staff and the Company and the NRDC a
13 week or 10 days ago, perhaps slightly more, but we
14 will be hearing a full range of evidence that was
15 previously filed in the proceeding, in addition, some
16 supplemental testimony that will be presented, some
17 of which has been presented in writing and some of
18 which will be presented live.

19 So that is why we're here. We'll begin with
20 our appearances here shortly, and I think we'll
21 proceed immediately to our witnesses. The parties
22 should be thinking about post-hearing process. We'll
23 want to discuss that later, and the bench will want
24 to confer on that, as well, so we'll take that up
25 later.

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1 So let's begin with the appearances, and
2 we'll start with the Company.

3 MR. VAN NOSTRAND: Thank you, Your Honor.
4 On behalf of PacifiCorp, James M. Van Nostrand and
5 Stephen C. Hall of Stoel Rives, and also entering an
6 appearance this morning is George M. Galloway, who
7 has handled the Company's MSP proceedings throughout
8 its service territory and will be handling those
9 issues for the Company in these hearings.

10 JUDGE MOSS: Thank you very much. Ms.
11 Davison, go ahead.

12 MS. DAVISON: Melinda Davison and Irion
13 Sanger for the Industrial Customers of Northwest
14 Utilities.

15 MR. CROMWELL: Robert Cromwell, Assistant
16 Attorney General, on behalf of Public Counsel.

17 MS. SMITH: Shannon Smith, Assistant
18 Attorney General, on behalf of Commission Staff.

19 JUDGE MOSS: Okay. And on the bridge line,
20 do we have anybody present for Natural Resources
21 Defense Council? How about the Energy Project? All
22 right. Is there anyone on the conference bridge
23 line? Now there's somebody on the conference bridge
24 line. Who just joined us? If they don't wish to
25 enter an appearance, that's fine. All right. Well,

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1 at least we know it's working.

2 All right. Well, let's -- unless there's
3 something preliminary from the bench or the parties,
4 and there apparently is not, I think -- ah, there is.
5 Ms. Davison.

6 MS. DAVISON: I assume that you were going
7 to say if there's anything preliminary before we get
8 to Mr. Schoenbeck?

9 JUDGE MOSS: Correct.

10 MS. DAVISON: And I was hoping that, in
11 order to expedite things, that I could move the
12 admission of the exhibits that I have stipulation
13 from PacifiCorp and from Commission Staff attorney
14 that there's no objection to those exhibits. If I
15 could go ahead and move those into the record, I
16 think that will save us a lot of time down the road.

17 JUDGE MOSS: Sure, that sounds good. Do you
18 have a list?

19 MS. DAVISON: I do, Your Honor.

20 JUDGE MOSS: Are you going to hand it to me
21 in writing or am I going to have to take careful
22 notes?

23 MS. DAVISON: I think I will hand it to you
24 in writing.

25 JUDGE MOSS: I appreciate that.

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1 MS. DAVISON: All right. Should I just hand
2 this to you, rather than read it into the record?

3 JUDGE MOSS: Why don't you just hand it to
4 me and I'll take care of it on the record.

5 MS. DAVISON: Okay.

6 JUDGE MOSS: That will be the most efficient
7 way to proceed.

8 MS. DAVISON: Thank you.

9 JUDGE MOSS: Thank you. All right. Ms.
10 Davison, on behalf of the ICNU, is moving the
11 following exhibits: Twenty-three through 25, 33, 77
12 through 92, 112 through 123, 142, 189, 214 through
13 227, 312 through 316, 334 through 341, 354 through
14 361, 392, 393, 401 through 429, 461 through 463, and
15 562 through 566, and it's the bench's understanding
16 that there's no objection to the admission of any of
17 these exhibits?

18 MS. SMITH: Your Honor, that's correct. The
19 Commission Staff doesn't object to the admission of
20 the exhibits, but to the extent Commission Staff has
21 noted an objection on the data request response, our
22 stipulation is subject to that objection.

23 JUDGE MOSS: Okay. I'm not sure what the
24 significance of that might be, but --

25 MS. SMITH: I'm not sure at this time,

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1 either. I think it depends on how it's being used
2 and --

3 JUDGE MOSS: Okay. Well -- all right.
4 Either the exhibits are in or they're not, so if
5 there's no objection to their admission, they will be
6 admitted as marked. And there will be -- I have
7 prepared an exhibit list, distributed that to the
8 parties. I will be updating that throughout the
9 hearing. And so these exhibits are as described in
10 that list that will be made part of the transcript of
11 record.

12 MS. DAVISON: Your Honor, I think there was
13 one error on the list I handed you. I apologize for
14 that. It says 142 comma 189, but it should say 142
15 through 189. Sorry about that.

16 JUDGE MOSS: Ah, that's a significant
17 difference.

18 MS. DAVISON: Yes, I'm sorry.

19 JUDGE MOSS: So that will include, then, 143
20 through 188, that we had previously identified.
21 Those also -- all right. Now, there are a number of
22 exhibits that you indicate, five all told, no, more
23 than five, a handful of exhibits as to which there
24 apparently will be some discussion at the time they
25 are offered, so we'll just reserve those until

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1 appropriate time has been reached and cooler heads
2 will, in the meantime, prevail.

3 All right. Then, with that, are we ready to
4 swear Mr. Schoenbeck and have his testimony?

5 MS. DAVISON: Yes.

6 JUDGE MOSS: It appears that we are. Mr.
7 Schoenbeck, please rise and raise your right hand.
8 Whereupon,

9 DONALD W. SCHOENBECK,
10 having been first duly sworn, was called as a witness
11 herein and was examined and testified as follows:

12 JUDGE MOSS: Thank you. Please be seated.

13

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

15 BY MS. DAVISON:

16 Q. Good morning, Mr. Schoenbeck. Are you the
17 same Donald W. Schoenbeck who has previously
18 submitted pre-filed written testimony in this docket?

19 A. Yes, I am.

20 Q. And is it correct that you have one
21 correction to your testimony on page 19, line nine?

22 A. Yes, that's correct.

23 Q. And could you tell us what that correction
24 is, please?

25 A. The word "after" should be replaced with the

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1 word "before."

2 Q. And do you have any other corrections to
3 your testimony?

4 A. No, I do not.

5 Q. Mr. Schoenbeck, could you tell us what your
6 overall objections are to the settlement?

7 A. Certainly. ICNU has five objections to the
8 Company/Staff/NRDC settlement. The first one has to
9 do with the treatment of the interstate allocation
10 procedures required under the settlement. The second
11 has to do with the level of the cost of capital. The
12 third has to do with the inclusion of resources as
13 being deemed prudent, even though the Company is
14 actively pursuing alternatives or replacements for
15 the resource. The fourth has to do with the deferred
16 accounting treatment that's included in the
17 settlement with regard to the Trail Mountain Mine and
18 environmental mediation accounts.

19 CHAIRWOMAN SHOWALTER: Excuse me. What was
20 that first thing you said? Deferred accounting
21 treatment of?

22 THE WITNESS: It's included in the
23 settlement with regard to the Trail Mountain Mine and
24 the environmental remediation monies. And the fifth
25 has to do with the notion that's included in the

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1 settlement that, should there be a revised revenue
2 requirement, the parties would seek and advocate for
3 interim rate relief.

4 All these things we find very objectionable
5 with regard to the settlement.

6 Q. Do you believe that the \$15.5 million
7 revenue requirement increase that is present in the
8 settlement represents a fair and just resolution of
9 the issues in this docket?

10 A. No, I do not. I think you can look at it
11 from two different perspectives. First, just with
12 respect to that of it being a simple general rate
13 case application, I believe the settlement does not
14 take into account serious issues that are raised by
15 the parties. In our view, incorporating just the
16 issues ICNU supports would make the settlement in the
17 range of less than \$5 million. Obviously, if some of
18 the issues that would be incorporated from the Public
19 Counsel's affirmative case, the number would be even
20 lower.

21 Secondly, I think there's an even more
22 important perspective, and that's to look at the
23 genesis of this proceeding and why it is actually, in
24 fact, it should have been part of a rate plan. From
25 a rate plan perspective, no customer was expecting

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1 this type of a rate increase generated by the \$15
2 million. For an average customer, this is an eight
3 percent increase to take effect shortly within the
4 same time another almost two percent credit will be
5 terminating.

6 So during the year, when customers are not
7 expecting -- or a very modest increase, a two percent
8 increase, they'll be looking at basically a
9 double-digit increase. For some customers, for ICNU
10 industry, this increase is \$1.3 million. So we're
11 talking a significant rate impact looking at the
12 combination of an eight percent -- the eight percent
13 increase called for under the settlement coupled with
14 the termination of the merger savings credit.

15 Frankly, we feel, from a rate plan
16 perspective, that under the Company's settlement,
17 assuming no increase is granted, the Company would
18 still earn about a seven to 7.4 percent of return on
19 common equity. We believe this would have been
20 expected in the final year of a rate plan. So
21 consequently, we do not believe that the settlement
22 has justified any increase for the Company.

23 COMMISSIONER HEMSTAD: I'm sorry, I didn't
24 understand your last statement. Would you go over
25 that again?

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1 THE WITNESS: Maybe it would be best,
2 actually, to refer to an exhibit. It would be
3 Exhibit Number 460.

4 COMMISSIONER HEMSTAD: I need to find that.

5 THE WITNESS: What we've attempted to show
6 is, in the first column, marked Per Staff, Pac, which
7 is abbreviation for PacifiCorp, NRD settlement, is
8 the derivation of the \$15.5 million increase, which
9 is shown on line nine.

10 CHAIRWOMAN SHOWALTER: Excuse me, line nine?

11 THE WITNESS: Oh, excuse me. It's my
12 glasses. Line G. What we wanted to show is, if
13 there was no increase granted, which is what we're
14 showing in Line G in the column marked Rate of Return
15 Under No Increase, based on cost of capital metrics
16 argued for by the Company, it would produce a rate of
17 return of 7.16 percent on common equity.

18 Using the capital structure elements that
19 were being advocated by the Staff/Public Counsel
20 witness, the same calculation yields a 7.35 percent
21 rate of return on common equity.

22 My statement was, with reference to that
23 particular value, we believed that was within the
24 range of return on common equity that the Company had
25 assumed would occur by this time during the rate

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1 plan, that it would be in the range of seven to eight
2 percent. So from our perspective, with regard to
3 what the customers were expecting, what the Company
4 was expecting, we think no increase is justified in
5 this proceeding.

6 Q. Mr. Schoenbeck, on Exhibit 460, you were
7 referencing the numbers on page one. Can you explain
8 briefly what is contained on page two of that
9 exhibit?

10 A. Page two is just a little bit more detailed
11 or support for the calculation to show and to present
12 all the cost elements with regard to capital
13 structure. You'll note the main differences between
14 the Company and the Public Counsel/Staff witness had
15 to do with the capitalization ratios, that is, the
16 percentage of equity versus debt, as well as the
17 inclusion of short-term debt in the -- as was being
18 advocated by the Public Counsel/Staff witnesses. So
19 it was just to show how I arrived at the 7.16 percent
20 under the PacifiCorp cost of capital parameters, and
21 the 7.35 percent where I was targeting the 6.819
22 percent target value that's shown there, which is
23 what a zero percent increase works out to for an
24 overall cost of capital to the Company.

25 MS. DAVISON: Your Honor, I'd like to move

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1 the admission of Exhibit 460.

2 JUDGE MOSS: Any objection? Exhibit 460
3 will be admitted.

4 Q. Mr. Schoenbeck, you also prepared what has
5 been marked as Exhibit 459; is that correct?

6 A. Yes, I did.

7 Q. And could you explain to us what is
8 contained on Exhibit 459?

9 A. 459 was updating our analysis with regard to
10 Account 923. There's a lot of things going on in
11 this exhibit, and I don't know if we want to take the
12 time to go through all of them.

13 COMMISSIONER HEMSTAD: What is Account 923?

14 THE WITNESS: It's outside services, it's an
15 A&G account. I suspect, looking at the
16 cross-examination exhibits from the Company, we'll
17 get into this in much better detail, but, roughly, it
18 was to show that, irrespective of using FY '03 data
19 or FY '04 data, I come to the same basic conclusion,
20 that I believe the Account 923 adjustment should be
21 in the range of a million dollars shown at the bottom
22 line.

23 MS. DAVISON: Your Honor, I'd like to move
24 the admission of Exhibit 459.

25 JUDGE MOSS: No objections? Being no

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1 objections, 459's admitted.

2 Q. Mr. Schoenbeck, do you have a specific
3 recommendation to the Commission regarding this
4 settlement?

5 A. Well, with respect to the settlement, I
6 basically believe it should be rejected by the
7 Commission. As I noted, the settlement calls for a
8 \$15.5 million increase, a significant amount, which I
9 don't think has been justified, so our position is no
10 increase should be granted.

11 Q. If the Commission does decide to grant an
12 increase in this proceeding, do you have a
13 recommendation regarding the timing of that increase?

14 A. If the Commission does believe some rate
15 relief is justified, I would recommend that it would
16 commence consistent with the original rate plan,
17 which would be January 1st, 2006.

18 Q. Let's go back to your five overall
19 objections to the settlement. Starting with the
20 level of cost of capital, can you provide more
21 explanation about your views on the cost of capital
22 contained in the settlement?

23 A. If I could refer to Exhibit 427, it might be
24 helpful.

25 JUDGE MOSS: Give us a moment. Ah. Well,

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1 that would be Exhibit 12, I believe.

2 MS. DAVISON: No, it's the real 427.

3 JUDGE MOSS: All right. Well, I have 427
4 stricken from my list, for some reason. Why would
5 that be?

6 CHAIRWOMAN SHOWALTER: Who is it associated
7 with?

8 JUDGE MOSS: Oh, I'm sorry. Associated with
9 Mr. Falkenberg. Or, no, did we move it? This was
10 the one we moved.

11 MS. DAVISON: Yes.

12 JUDGE MOSS: All right. There was some
13 confusion about this. I apologize. This exhibit
14 should be located with Mr. Schoenbeck, but it's
15 probably still in our books with Mr. Falkenberg. So
16 give us a minute. Do you have spare copies of 427?

17 MS. DAVISON: I'm sorry, Your Honor, we
18 don't. I could have some made very quickly.

19 JUDGE MOSS: Allright. We'll just take a
20 five-minute recess and we'll get it.

21 THE WITNESS: I actually have some. I have
22 lots.

23 JUDGE MOSS: Mr. Schoenbeck has spare
24 copies. Three, please. Thank you. All right. We
25 all have 427 now, but, actually, mine doesn't --

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1 CHAIRWOMAN SHOWALTER: Can we stop for a
2 second off the record?

3 JUDGE MOSS: All right. We're still off the
4 record.

5 (Discussion off the record.)

6 JUDGE MOSS: Back on the record. We now
7 have Exhibit 427 before us.

8 Q. All right. Mr. Schoenbeck, could you
9 explain to us what you've done in Exhibit 427?

10 A. Yes. In a way, it's similar to the
11 calculation I performed under Exhibit 460, to back
12 into an implicit rate of return. What we know of the
13 settlement is the parties could not agree to exact
14 capital structure and the associated cost parameters,
15 but you can imply a range given what those parties
16 advocated in their testimony.

17 So taking the top half of Exhibit 427, I
18 simply tried to determine what would be the return on
19 common equity that would yield the settlement value,
20 which presented an overall rate of return of 8.39
21 percent. Based on the capitalization ratios and the
22 cost of debt it deferred, that value ends up being a
23 10.5 percent return on common equity.

24 Doing a similar calculation, based upon the
25 Staff/Public Counsel witness cost of capital

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1 parameters, since they had a greater percentage of
2 debt and they included short-term debt, the implicit
3 return on common equity ends up being 10.9 percent.

4 So we simply note that these are far above
5 the range advocated by the Staff/Public Counsel
6 witness, which was 9.75. They needed to use the
7 midpoint of his range, which was 9.375, as a
8 recommended return on common equity for the Company.

9 What -- I simply put as a note to illustrate
10 the significance of this issue at the bottom of the
11 exhibit is that a one percent return on common
12 equity, or 100 basis points, is approximately \$4.5
13 million. So the return on common equity ends up
14 being a significant issue between what's implicit
15 within the settlement vis-a-vis the Staff/Public
16 Counsel advocated position.

17 Q. Does ICNU have a position on Mr. Hill's
18 testimony?

19 A. Of course we're waiting for the hearing to
20 transpire and be over, but upon the initial review of
21 the testimony, ICNU was supportive of his testimony
22 of return on common equity. Like is so often the
23 case, for an intervenor such as ICNU, there's limited
24 budgets, there's limited funds available to
25 participate in the proceedings, so we have to almost

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1 rifle shot, target specific issues. And what we
2 attempt to do is target issues we do not feel are
3 being addressed or will be addressed by other
4 parties.

5 So this is a perfect example of where ICNU
6 has not provided a cost of capital witness, but that
7 does not mean we acquiesce or support the position
8 advocated by the Company on the issue at all.

9 Q. Let's turn to your issue or objection you
10 noted regarding the level of resources that are
11 deemed prudent. And you mean generating resources?

12 A. Yes.

13 Q. And can you describe with more specificity
14 what your concerns are with regard to these
15 generating resources?

16 A. Well, I'm in a little bit of a unique
17 position here, where the appropriate ICNU witness on
18 this will actually be Mr. Falkenberg, but just to
19 give my assessment of the issue, in particular, with
20 regard to West Valley, it's -- the cost associated
21 with this resource is included in the settlement, and
22 this is a resource where PacifiCorp has already
23 received responses for an RFP to replace this
24 resource.

25 Pursuant to the contract, they had a option

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1 to terminate the lease for that resource, and they
2 exercised that option. Suppliers, potential
3 suppliers have responded to their RFP.

4 As one of our numerous data requests in this
5 proceeding, we asked for PacifiCorp to provide the
6 responses from the potential suppliers along with any
7 analysis PacifiCorp had done with regard to those
8 bids, and they refused to supply us that information.
9 So I give that as an example, and I'm sure Mr.
10 Falkenberg will be able to talk in much greater
11 detail when he's here next week.

12 Q. Do you have a copy of the settlement
13 agreement in front of you?

14 A. Yes, yes, I do.

15 Q. If you turn to page six of the settlement
16 agreement, Paragraph C, and I'll give you a moment to
17 get there.

18 A. Paragraph C?

19 Q. C, as in Charlie.

20 A. Yes, I have it.

21 Q. What you're referring to are the list of
22 generating resources that have come online since
23 1986; is that correct?

24 A. Yes, that's correct.

25 Q. And is it your reading of this paragraph

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1 that the costs of these generating resources will be
2 put into rates now?

3 A. Yes, it is.

4 Q. If this settlement is approved, that is?

5 A. That's correct.

6 Q. Can you explain to us your reading of the
7 settlement agreement and the treatment of the
8 deferred accounts for Trail Mountain, environmental
9 remediation, and RTO costs?

10 A. Certainly. It might be good to stay where
11 we are with regard to the settlement. If you would
12 -- I'm actually going to take them in reverse order.
13 If you look at just the page we were referring to,
14 which is page six, Paragraph D presents the proposed
15 treatment of RTO-related cost.

16 And for me, the critical sentence is the
17 last one on that page, where it states that the
18 parties agree that the Company may seek an accounting
19 order from the Commission authorizing the deferral of
20 such costs for consideration of future rate
21 proceedings. Staff will evaluate any such petition
22 for an accounting order on its merits.

23 Excuse me, it's actually two sentences I
24 read, but we support that view with respect to RTO
25 costs, that that should be the procedure. The

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1 Company can seek the authority to defer the costs,
2 but then there will also be a reasonableness review,
3 if you will, of those costs to decide if and when
4 they should be recovered in rates.

5 I would like to contrast that language with
6 the language that's presented on page seven, Roman
7 numeral 12, Paragraph B, with respect to Trail
8 Mountain.

9 COMMISSIONER HEMSTAD: I believe you said
10 Roman numeral. You mean Arabic 12?

11 THE WITNESS: Oh, excuse me, Arabic 12,
12 Paragraph B. Where this is -- I won't read it, but
13 just to paraphrase it, where this is specifically
14 recommending that the accounting order be issued, and
15 it actually goes a little bit, in my view, one step
16 further than that, or the paragraph could be
17 amplified, and in fact what's going on in the
18 settlement, these costs are being recovered.

19 So these costs associated with these
20 deferred monies, this coal mine, are a complement of
21 the \$15.5 million increase.

22 And basically, the exact same thing can be
23 said with respect to Paragraph C, the environmental
24 remediation cost, where again -- so what has
25 happened, this settlement has brought in two separate

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1 dockets seeking deferral authority and potentially
2 subsequent recovery, and yet this settlement assumes
3 you've issued the orders and it assumes that costs
4 can be recovered in rates.

5 ICNU's position with respect to these two
6 particular items is that they should stay within
7 their own dockets and everyone should be afforded a
8 reasonable opportunity to review the associated
9 costs, the prudence of those costs, and what should
10 be included. This is particularly true with regard
11 to Trail Mountain, as well.

12 I haven't had the opportunity -- I would
13 have liked to have talked with Mr. Weston about this
14 adjustment, but I am concerned over the \$46.3 million
15 figure that's reflected in the settlement. Trail
16 Mountain is a coal mine that provides the fuel to a
17 plant that's only 85 percent owned by PacifiCorp, and
18 the remaining 15 percent is owned by another entity.
19 At least in two other jurisdictions, with regard to
20 Oregon and Wyoming, the commissions have approved
21 that only 85 percent of the costs of this plant be
22 allowed in rates, recognizing the percent obligation
23 or ownership of PacifiCorp.

24 It's unclear to me, sitting here today, if
25 this \$46.3 million value reflects that type of an

0136

1 85/15 percent split. But what gives me pause for
2 concern in the only other number I've seen with
3 regard to the cost of the mine is a level of around
4 45.7 or eight million, so that my understanding of
5 100 percent of the coal mine is very close, or the
6 costs associated with this are very close to the \$46
7 million figure that's reflected in the settlement.

8 So it's issues like that that I believe need
9 to be aired more appropriately in a separate docket,
10 a separate proceeding.

11 JUDGE MOSS: Let me interject. Mr.
12 Schoenbeck, you said that these items should stay in
13 their own dockets. Are there dockets pending
14 concerning these accounting orders or is this
15 proposal before us for the first time in this
16 proceeding?

17 THE WITNESS: I've seen the Company's
18 filing, and I believe it was in October of this year
19 with regard to Trail Mountain, and it's my
20 understanding that there was a similar filing with
21 respect to the environmental remediation of that. I
22 can say I have not seen that.

23 JUDGE MOSS: Well, I'll just interject that
24 I'll want the Company, at some point in its
25 presentation, to clarify for us, for our record, one,

0137

1 whether the 46.3 million reflects the total cost or
2 the PacifiCorp proportionate cost, or if there's some
3 argument or dispute about that whole issue, to
4 clarify it, and second, the -- we'd like to have in
5 the record the specific dockets in which these other
6 matters may be pending at some point.

7 MR. VAN NOSTRAND: The testimony supporting
8 the settlement agreement on pages 18 and 19 indicate
9 the applications that have been filed and indicate
10 the docket number, Your Honor, and we'll address the
11 \$43.6 million issue, as well.

12 JUDGE MOSS: Great. Thank you for that
13 clarification. Go ahead, Ms. Davison.

14 Q. Mr. Schoenbeck, is it your reading of this
15 settlement that the cost, for example, of Trail
16 Mountain will be included in rates immediately if the
17 settlement is approved?

18 A. Yes, it is. And what I would refer you to
19 with regard to the settlement -- I don't know the
20 exhibit number, but I'm looking at what had been
21 pre-labeled as Panel Four, Exhibit Panel Four, page
22 four of six.

23 Q. My copy says four of 13.

24 CHAIRWOMAN SHOWALTER: Mine has 11 pages.

25 JUDGE MOSS: Mine's got 11 pages.

0138

1 MR. CROMWELL: As does mine.

2 JUDGE MOSS: Oh, my.

3 MS. DAVISON: Well, actually, mine has 11
4 pages, it just has a different number on the top. So
5 let's see if we all have the same document. Is it a
6 document that says PacifiCorp General Rate Case
7 Settlement, and then on the second line it says
8 Settlement Agreement Based on PacifiCorp Rebuttal,
9 Total Ratemaking Adjustments, Weather Normalization,
10 3.1?

11 JUDGE MOSS: No.

12 MS. DAVISON: No, okay.

13 CHAIRWOMAN SHOWALTER: Can we go off the
14 record?

15 JUDGE MOSS: Okay. We'll be off the record.

16 (Discussion off the record.)

17 JUDGE MOSS: With that, I think we're ready
18 to go back on the record.

19 THE WITNESS: On page seven, you see where
20 adjustment 5.3 is indeed labeled on this version
21 Trail Mountain Closure Amortization. So I believe
22 that that is reflecting of the paragraph in the
23 settlement that's calling for the Commission to issue
24 an order, and that it's not quite apparent from the
25 settlement, but I think what's assumed within that

0139

1 language is that then you also allow for immediate
2 recovery of that using the amortization period they
3 propose.

4 I almost hate to do it, but on page nine,
5 what I'm looking at as page nine, Adjustment 8.1 is a
6 similar column for the environmental settlement
7 treatment. So I would assert that the settlement
8 assumes you've issued your accounting orders and
9 you've allowed for recovery of these costs.

10 Q. Then what would be the purpose, can you
11 speculate, for having a follow-on deferred accounting
12 proceeding on Trail Mountain or environmental
13 remediation?

14 A. I'm sorry, did you say have a follow-on
15 proceeding? I think this -- it becomes unnecessary
16 if you'd accept the settlement. I think it's a done
17 deal.

18 Q. Thank you.

19 CHAIRWOMAN SHOWALTER: May I interject a
20 question at this point?

21 MS. DAVISON: Please.

22 CHAIRWOMAN SHOWALTER: Which is just, are
23 you -- if there were no settlement agreement and we
24 were simply proceeding with a rate case, is it your
25 opinion that the environmental issue and the Trail

0140

1 Mountain issue should not be in the rate case, or
2 they would be in the rate case, they'd be resolved in
3 the rate case, and what your objection is is you
4 don't like what the settlement of those two items is
5 in the settlement document?

6 THE WITNESS: It's kind of both. It's the
7 form that says dockets have been issued on these
8 particular items, and that would be a focused hearing
9 with regard to all the issues raised in those items.
10 So I'm saying that's a more appropriate forum for
11 these issues, but in particularly the Trail Mountain,
12 because when you're talking in terms of \$46 million,
13 if that's 85 percent or 100 percent, that's a lot of
14 money.

15 And then the second part, with regard to
16 imposing a cost, I can't speak to that per se,
17 because we haven't -- Mr. Falkenberg may be able to
18 address the Trail Mountain Mine. It hasn't been my
19 area of my responsibility. With respect to it, we
20 accept the settlement if it was as part of the
21 general rate case.

22 Q. Moving on to number four of your five
23 objections, you listed treatment of allocation
24 procedures, and I believe what you were referring to
25 there is how the settlement treats the multi-state

0141

1 allocation methodology known as MSP. Can you
2 elaborate on that point, please?

3 A. Well, that was actually my first point, was
4 interstate allocation. And again, I'm in this
5 position where Mr. Falkenberg is the expert on this,
6 but from my view, what's troubling about the
7 settlement is it is based on a protocol methodology,
8 which is not being considered by any other
9 jurisdiction to set rates under. Then it goes one
10 step further by requiring results of operations to be
11 reported based upon a revised protocol methodology.

12 So to me, I don't think that resolves one of
13 the concerns regarding even having this docket, and
14 that had to do with trying to come to some resolution
15 on interstate allocation, that this is just a
16 placeholder with regard to this issue in the
17 settlement, since neither party could agree to an
18 interstate method.

19 Q. Do you have any other observations on the
20 settlement you would like to convey to the
21 Commission?

22 A. The only other one was, again, what I
23 mentioned was our fifth concern. We haven't really
24 amplified on that at all. That's just the notion
25 that somehow should the Commission object to some

0142

1 portion of this settlement, that the parties would
2 advocate the need for interim relief. We believe no
3 interim relief is justified, as indeed we believe no
4 increase has been justified under the settlement
5 agreement.

6 MS. DAVISON: Thank you. I don't have any
7 further questions, Your Honor.

8 JUDGE MOSS: Thank you. Let's go ahead with
9 our cross-examination, then. We have
10 cross-examination times estimated by both Staff and
11 the Company. Do you have a preference about who goes
12 first?

13 MS. SMITH: Your Honor, this is Shannon
14 Smith. We would propose that the Company go first
15 and, with luck, that will take care of our 15
16 minutes, as well.

17 JUDGE MOSS: All right. Then, Mr. Hall, why
18 don't you proceed.

19

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

21 BY MR. HALL:

22 Q. Good morning, Mr. Schoenbeck.

23 A. Good morning.

24 Q. Have you had a chance to review Exhibits
25 Number -- Cross-examination Exhibits 464 through 479?

0143

1 A. I'm sure I've reviewed most of them.

2 Q. Do you recognize those as your responses to
3 Company data requests?

4 A. There's only one I did not, and that had to
5 do with -- there's a part of Exhibit 469 I do not
6 believe was part of our data response to the Company.

7 MR. HALL: Okay. Well, Your Honor, with the
8 exception of Number 469, which I think we can address
9 when we get to it, I'd like to move at this time to
10 admit the other exhibits into the record.

11 JUDGE MOSS: Is there any objection? No
12 objection, so they'll be admitted as marked.

13 MR. HALL: Thank you.

14 Q. Mr. Schoenbeck, let's turn to page three of
15 your direct testimony, steam maintenance expenses.

16 A. Yes.

17 Q. Now, tell me if I'm correct, but as I
18 understand your adjustment, what you're recommending
19 is to use an average of four years of the steam
20 maintenance expense?

21 A. As I've -- yes, as I have adjusted it to
22 normalize certain aspects of the steam maintenance
23 accounts, both with respect to inflationary pressures
24 and with respect to the fact that a plant such as
25 Centralia is no longer owned by the Company, so I

0144

1 adjusted that out of the four-year average. I also
2 made similar adjustments for the new resources that
3 were brought on by the Company to make sure they
4 reflected a four-year type of average.

5 Q. Thank you. Let me just ask the question
6 again. So but the fundamental difference is that the
7 Company takes a test year of the steam maintenance
8 expenses and you have a four-year average?

9 A. Yes, I think it's the obligation of the
10 Company to --

11 Q. Mr. Schoenbeck, just -- I'm just trying to
12 kind of set the table here a little bit. The Company
13 used a test year and you used four calendar years?

14 A. The Company used a fiscal year. In a
15 response to a data request, they could not provide
16 four historical fiscal years of information, so I
17 used four historical calendar years as a starting
18 point.

19 Q. Okay, thank you. Let's go to page nine of
20 your testimony. And you have two tables there in the
21 middle of your page?

22 A. Yes.

23 Q. Do you see that?

24 A. Yes, I do.

25 Q. Would you agree that in both of those tables

0145

1 that the amount of total steam maintenance expenses
2 is lower in calendar year 2000 compared to the other
3 years?

4 A. Yes.

5 Q. Is it your position that the amount of total
6 steam maintenance expenses from calendar year 2000
7 are representative of a normal year?

8 A. I'm saying that, since the Company does
9 measure overall maintenance on a four-year --

10 Q. Mr. Schoenbeck.

11 MS. DAVISON: Mr. Hall, I think Mr.
12 Schoenbeck should be entitled to explain his answer.

13 JUDGE MOSS: Let him get his answer out, all
14 right?

15 MR. HALL: Okay.

16 THE WITNESS: That it was appropriate to use
17 more than one year. Frankly, I think this is also
18 shown by the Company rebuttal exhibit, which is
19 Number 332. This shows what I was trying to capture,
20 I believe, in a nutshell to get to the gist of the
21 issue. If you look at the last line --

22 COMMISSIONER HEMSTAD: If you will wait a
23 moment till we find it.

24 JUDGE MOSS: What exhibit? Did you say 332?

25 THE WITNESS: 332. It's the Company

0146

1 exhibit.

2 JUDGE MOSS: And with what witness?

3 THE WITNESS: Mr. Woolley.

4 CHAIRWOMAN SHOWALTER: What page are we
5 going to go to?

6 THE WITNESS: It's page one of one.

7 JUDGE MOSS: If I have the right exhibit,
8 this is a confidential exhibit.

9 THE WITNESS: Yes, it is.

10 JUDGE MOSS: Is it important to maintain
11 confidentiality with respect to numbers displayed on
12 this page?

13 MR. HALL: Your Honor, we're getting a copy
14 of that page right now. But my question was just
15 much simpler. I just asked if the year 2000 was a
16 representative year. I'm not sure why we need to
17 delve into Mr. Woolley's rebuttal testimony at this
18 point.

19 JUDGE MOSS: Do you need to delve into the
20 testimony to answer whether 2000 was a representative
21 year?

22 THE WITNESS: It's my position this
23 representative period is a series of years; not any
24 one year is representative. You need to look at, in
25 my view, at least four for this Company.

0147

1 JUDGE MOSS: All right. Well, that seems to
2 clarify it, give you the answer you're seeking. So
3 perhaps we'll need to refer to this on redirect, but
4 for now, let's move on.

5 MR. HALL: Thank you, Your Honor.

6 Q. Mr. Schoenbeck, are you aware of anything
7 exceptional occurring in the calendar year 2000 that
8 may have had an effect on the Company's total steam
9 maintenance expenses?

10 A. No, I do not. They're --

11 Q. Mr. -- okay, thank you. Could the Western
12 energy crisis of 2000 had any effect upon the
13 Company's total steam maintenance expenses?

14 A. I don't know.

15 Q. Could the reduced steam maintenance expenses
16 of 2000 been the result of efforts by the Company to
17 minimize power plant outages in response to
18 historically high wholesale power prices?

19 A. It would be a possibility.

20 Q. Do you consider the Western energy crisis of
21 2000 a unique event?

22 A. Yes.

23 Q. Do you think we're likely to see a return to
24 the high power prices of 2000?

25 A. When I say unique event, I mean up to the

0148

1 level that they were. Certainly, I would hope not.

2 Q. I think we all hope not. Do you think that
3 we're likely to see a return to that, though?

4 A. Certainly there'll be periods of supply and
5 demand on a thinly-traded commodity where prices
6 would spike up. I would certainly hope they would
7 not go anywhere near the level they did then.

8 Q. Is that a yes?

9 A. That's a hopeful yes.

10 Q. Can we get it down to yes or no?

11 JUDGE MOSS: You're asking him to speculate
12 about the future, Mr. Hall. He can only do so much.
13 So let's move on, please.

14 MR. HALL: Thank you, Your Honor.

15 Q. The Company's average expense under your
16 adjustment, it would be much higher without calendar
17 year 2000, wouldn't it?

18 A. Yes, it would. And if --

19 Q. I'm sorry. Did I interrupt?

20 A. No, I was just going to say you could go to
21 year 2004 or 2005, but, again, the basic notion is
22 you don't have major overhauls on all the units every
23 year, so it's hard to focus on one year. That's why
24 I believe you need to look at a series of years, just
25 like many other utilities do on the West Coast, and

0149

1 PacifiCorp did not.

2 Q. Would you agree that, by removing calendar
3 year 2000, the Western energy crisis year from your
4 average, that your steam maintenance expense
5 adjustment would drop significantly?

6 A. It appears that it would.

7 Q. Would you agree, subject to check, that a
8 three-year average of the adjusted total steam
9 maintenance expenses that excluded calendar year 2000
10 would be 139,640,000?

11 A. I'll accept that subject to check.

12 Q. Okay. Are you aware that the weighted
13 average age of PacifiCorp's thermal units is 29
14 years?

15 A. I think that was presented in an exhibit in
16 the rebuttal testimony.

17 Q. Are you aware that most of the units are in
18 the second half of their life cycle?

19 A. I didn't look at each individual units; I
20 just looked in terms of the bottom line weighted
21 average.

22 Q. Mr. Woolley's rebuttal testimony states that
23 most of the units are in the second half of their
24 life cycle. Do you have any basis to dispute that?

25 A. No.

0150

1 Q. Also in Mr. Woolley's testimony, and that
2 would be at page four, lines 22 to 23, he stated
3 that, because of the age of these power plants, the
4 number of age-related problems is increasing. Do you
5 agree with that?

6 A. I would not know. It's his testimony.

7 Q. Do you have any basis to dispute that?

8 A. No, I do not.

9 Q. Okay. As the number of age-related problems
10 increases, does it make sense that maintenance and
11 repair costs would increase, also?

12 A. Potentially. There are also, obviously, in
13 this particular field, there are always technological
14 advances that can work the other way.

15 Q. Even with the 29-year-old plants?

16 A. Yes, that's absolutely correct. Even with
17 50-year-old plants.

18 Q. If costs are rising, will they be higher in
19 the future than they are right now?

20 A. I guess they would be, if that's what you
21 assume.

22 Q. So if all other things being equal, test
23 year costs will be lower than the future steam
24 maintenance expense cost; is that correct?

25 A. All else being equal.

0151

1 Q. Let's turn back to your tables, or maybe
2 we're still there, on page nine of your testimony,
3 those two tables?

4 A. Yes, I have it.

5 Q. Okay. Would you say that the trend of the
6 total annual steam maintenance expenses is
7 decreasing, staying the same, or increasing?

8 A. For these years, it's increasing.

9 Q. If the trend is increasing, is it correct to
10 say that taking an average of the historical amounts,
11 as you propose, will always result in a number that
12 is lower than the future costs?

13 A. No, not necessarily. And again, I think we
14 could really cut through the chase if we just talk in
15 terms of Mr. Woolley's Exhibit 332, because what that
16 shows is -- because the issue we're getting here, the
17 issue my testimony's addressing was not total
18 operation expense, because that looked to me to be --
19 the Company's figure was right in the ballpark. It
20 had to do with major overhauls, which do not occur
21 every year.

22 If you would look at the last line in Mr.
23 Woolley's Exhibit 332, where he shows major
24 overhauls, he shows, for the year 2003, an expense in
25 constant 2004 dollars --

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1 JUDGE MOSS: Let's don't put those dollars
2 on the record, since these are confidential numbers.

3 THE WITNESS: Good point. But it's
4 substantially more than the maintenance expense that
5 was either in 2002, 2001, in 2004 or the year 2005.
6 Their rate-setting process in this case used the year
7 2003 value. That's what's in the rates. And that's
8 why I'm asserting that is not an appropriate level
9 for a normalized rate-making adjustment, and I think
10 this exhibit shows how the major overhaul maintenance
11 expense cannot be -- that one year cannot be declared
12 a normal year.

13 Q. Since we're talking about Mr. Woolley's
14 exhibit, at page four of his testimony, he stated
15 that overhaul expenses are expected to range from
16 \$18,160,000 to \$30,396,000. That's lines nine and
17 10.

18 A. Yes.

19 MS. DAVISON: Which testimony, the direct or
20 rebuttal?

21 MR. HALL: Mr. Woolley's rebuttal testimony,
22 page four, lines nine to 10.

23 THE WITNESS: Yes, this exhibit shows both
24 values. The lower value is shown for the -- I guess
25 it's not confidential value anymore. It's shown on

0153

1 the year 2001, in the highest value, the \$30,396,000
2 value is shown for the year 2007.

3 Q. Would you agree that PacifiCorp's fiscal
4 year 2003 overhaul expenses of \$27,143,000 are within
5 that range?

6 A. Yes, they are within that range.

7 Q. Okay. I'd like to turn to page six of your
8 testimony. You have the table there that has the
9 overhaul days?

10 A. Yes, I do.

11 Q. Is that correct?

12 A. Mm-hmm.

13 Q. Does this table take into account any
14 differences between the units with regard to
15 ownership?

16 A. With regard to ownership. I guess --

17 Q. Want me to ask the question differently?

18 A. Could you, please?

19 Q. I'll just lay a little foundation. Some of
20 the power plants here, PacifiCorp doesn't own a
21 hundred percent of all of these power plants; it
22 shares ownership with other companies. Do you make a
23 distinction for that on here?

24 A. No, I did not.

25 Q. Okay. Does this table take into account any

0154

1 differences between the units with regard to their
2 capacities for producing power?

3 A. No, I did not. I did do some analysis that
4 -- I just didn't present the table on weighted
5 megawatt days of maintenance, but no, this table is
6 just strictly overhaul days. And I noted Mr. Woolley
7 didn't particularly think it was a meaningful metric.

8 Q. Does this table take into account the
9 relative age of any of the units?

10 A. No, it does not.

11 Q. Your table on page six has a column marked
12 average; is that correct?

13 A. Yes, it does.

14 Q. How many years does this table cover?

15 A. It talks in terms of months. I stated in
16 the testimony that the problem we had, once again, on
17 trying to get data from the Company since they
18 switched over from a calendar year to a fiscal year.
19 And sitting here today, I can't recall the exact
20 number of months, but it's not four years.

21 Q. It's not four years. Would you accept,
22 subject to check, that actually this table only
23 represents three years and three months?

24 A. That could very well be.

25 Q. The second column there, calendar year 2001,

0155

1 and I hope you don't think I'm being coy, but what
2 months are included in calendar year of 2001?

3 A. I would have to look at my spreadsheet work
4 paper, but I'd naturally assume it would be January
5 through December.

6 Q. And the next column is fiscal year 2002.
7 Which months are included in that column?

8 A. That ends as of March 2002.

9 Q. So that would be April 2001 --

10 A. Mm-hmm, right.

11 Q. -- May 2001, June 2001, July 2001, through
12 December?

13 A. Right.

14 Q. So there's --

15 A. What we did is we looked at -- we had two
16 different types of reports that the utility gave us
17 in response to data requests. We actually did, in
18 compiling this table, we did not take the -- since we
19 saw the obvious difference between the outage days
20 between the two reports, we tried to eliminate all
21 the double-counting aspects of maintenance days
22 between the overlapping periods. But because of how
23 the data was presented that we were trying to work
24 with at the time, our degree of success was the best
25 we could do, but there may be a little bit of overlap

0156

1 on a couple of the days for a couple of the units.

2 But we tried to look at the specific outages
3 of the specific device for each of the plants and
4 each of the days, because on the data response they
5 actually gave the days that the plant was out. For
6 example, okay, this plant was out, this unit was out
7 for March 1st to March 3rd, so -- for the calendar
8 year. So if we saw in the fiscal year response, if
9 they said the plant was out for March 1st through
10 March 3rd, we did not count that, but if it said it
11 was out for March 7th through the 10th, we would then
12 count that as not being an overlapping outage.

13 So we made some attempt. So it wasn't just
14 simply taking the raw data from the Company, because
15 we certainly realized the problem, going from
16 calendar year to fiscal year, because the months of
17 overlap.

18 Q. So if I understood what you've said
19 correctly -- let me ask it as a question. You've
20 made adjustments for that overlap of those nine
21 months in that table?

22 A. Well, I said we attempted to. The way we
23 had the data, it was -- in some instances, for some
24 of the outages, we could absolutely make sure there
25 was no overlap. For other of the units, when it may

0157

1 have just alluded to a March outage and didn't give a
2 specific day, then I cannot sit here today and tell
3 you that we did not double-count that outage.

4 Q. So your position is there's some
5 double-counting in the table?

6 A. There's potentially, but we did everything
7 we had, from the data we had available, to not
8 double-count.

9 Q. Is there anywhere in your testimony where
10 you've identified that there was a double-count in
11 that table?

12 A. No, no, no, no, but I think I did state in
13 the testimony about the problems with getting the
14 calendar year versus the fiscal year.

15 Q. Are you aware of any other instances in your
16 testimony or analysis where you've weighted some data
17 points more than others because of this fiscal
18 year/calendar year phenomenon?

19 A. No, not that I'm aware of, because that's
20 why, when it actually comes down to the dollars,
21 which is really the issue here, we -- I noted we
22 stayed, instead of trying to match up calendar year
23 cost with fiscal year cost, we just decided to go
24 with just straight calendar year cost.

25 Q. So going back to my first question, your

0158

1 recommendation proposes to use calendar years and the
2 Company uses fiscal years. How do you know that
3 there's not this kind of a problem with your
4 analysis?

5 MS. DAVISON: Objection. I'm not sure what
6 this kind of problem is.

7 MR. HALL: The double-counting and
8 double-weighting of data points to achieve an average
9 number.

10 MS. DAVISON: I object. I don't believe
11 that that is this witness' testimony.

12 JUDGE MOSS: Well, now he's asking, under
13 Mr. Schoenbeck's proposal, whether this type of a
14 problem, meaning a double-counting type of a problem,
15 could exist. I think that's a fair question.

16 THE WITNESS: And I'd say, under my
17 adjustment, you know, what I was trying to do is
18 explain the phenomena here of how you don't overhaul,
19 you don't have a major overhaul of a steam plant
20 every year. So I was using this as one of my
21 illustrations.

22 And we can use other illustrations, we can
23 go back to Exhibit 332, we can go to any exhibit
24 where you'll see the major overhauls for a unit are
25 not uniform across every year. So the only

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1 possibility that could be there at all with respect
2 to the fact that my adjustment is off of their
3 proposed steam cost, which is based on a fiscal year
4 ending of '03, their FY '03. I derived what I
5 thought would be an appropriate number based on a
6 four-year average of calendar years. So you could
7 say, Well, maybe there's some mismatch between -- I
8 should have subtracted off a calendar year '03
9 number, but that's not -- I would say that would be
10 an inappropriate adjustment.

11 I came up with a value I thought would be
12 appropriate for steam maintenance expense, and I did
13 the deviation of that value from the Company's fiscal
14 year number, but that's the number I think is
15 appropriate.

16 Q. At this point, do you believe that the
17 average overhaul days calculated on your table on
18 page six accurately portrays the Company's number of
19 overhaul days for January 2000 through March 2003?

20 A. At the time we did the analysis, based on
21 the information that the Company had given us, it was
22 the best we could do at that time.

23 Q. Okay. Let's move on. Outside services
24 expenses. The four major categories that you
25 recommended adjustments for were Snake River

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1 litigation expenses, MSP, RTO, and Hive, H-i-v-e,
2 Down.

3 Let's talk about RTO costs first. Now, I
4 assume that you're aware that the Company's proposed
5 settlement would remove \$340,000 of RTO-related costs
6 from the Company's case?

7 A. I think the number's closer to 300,000, but
8 yes, mm-hmm.

9 Q. Would you accept, subject to check, that
10 Washington's share of your proposed adjustment, as
11 proposed in your testimony, was \$286,501?

12 A. That is a familiar number, yes. On Exhibit
13 -- if you look on Exhibit 459, the RTO costs for FY
14 '03 I presented were thirty-five-twenty-four, so that
15 multiplied times the Washington jurisdictional
16 allocation factor of 8.13 percent does produce the
17 \$286,000.

18 If you do a similar calculation for FY '04,
19 you would note a much smaller number, in the range of
20 \$105,000 for FY '04.

21 Q. My question's pretty simple. Would you
22 agree that the adjustment proposed under the
23 settlement exceeds the adjustment proposed in your
24 testimony?

25 A. Yes, it does.

0161

1 Q. Okay. Let's talk about Hive Down, page 17
2 of your testimony.

3 A. Mm-hmm.

4 Q. Have you had an opportunity to review the
5 rebuttal testimony of Ted Weston?

6 A. Oh, yes, I have.

7 Q. At pages eight and nine of his testimony,
8 Mr. Weston explained that the designation Hive Down
9 was the original title used on billing invoices for
10 SRP, and as SRP evolved into MSP, the title in the
11 billing records did not change, hence the confusion.

12 Do you have any basis for disputing Mr.
13 Weston's explanation of the costs referred to as Hive
14 Down?

15 A. No, I don't. But since we're proposing
16 those costs be eliminated, it doesn't change our
17 adjustment.

18 Q. Understood.

19 A. Okay.

20 Q. Okay. On page 16 of your testimony, you
21 discuss an adjustment for MSP.

22 A. Yes.

23 Q. And so since we've collapsed Hive Down into
24 MSP, we can talk about both of those together. As I
25 understand your testimony, the Company should not be

0162

1 able to recover MSP expenses because they do not
2 offer any future or ongoing benefits to ratepayers;
3 is that correct?

4 A. I think that's certainly correct in this
5 jurisdiction, yes.

6 Q. Is the reason for this, according to your
7 testimony, that it is highly uncertain whether
8 agreement will be reached among the Company's six
9 states?

10 A. Well, that's certainly part of the reason.
11 It has to do with the level of costs that should be
12 included in rates on a normalized period going
13 forward. Certainly, even if all six states would
14 agree to a methodology and that methodology be used,
15 that does not mean, going forward, they should have
16 that cost, because that cost would then drop out of
17 this Account 923, outside consulting services, so it
18 would be a nonrecurring expense, if you will.

19 Q. Mr. Schoenbeck, did you put anything in your
20 testimony about that?

21 A. Well, at the start of our testimony, talking
22 in terms of A&G expense, we gave a series of general
23 reasons why we would include or exclude costs, and
24 obviously that's a major part of our accounting
25 adjustments, obviously, is the notion that they're

0163

1 nonrecurring.

2 Q. Was there anything in your testimony, other
3 than the fact that the six states would not reach
4 agreement, for excluding this expense?

5 A. We specifically pointed to that, but that
6 did not mean that our overarching reasoning behind
7 all our 923 adjustments did not apply.

8 Q. So in light of this, isn't your testimony
9 that such costs should be denied because agreement
10 had not been reached a bit of a red herring?

11 A. Again, that's part of it. I --

12 Q. Okay. Do you believe that the Company's
13 Washington customers could benefit from some sort of
14 an allocation of costs among the six states?

15 A. I guess what do you mean by benefit?

16 Q. Would it be better for them to have some
17 sort of allocation agreement between the six states
18 than to not have any sort of agreement?

19 A. I see more that benefit going to the Company
20 than the ratepayers. I think -- you know, I'll grant
21 you this. I think it would be good that there could
22 be a common allocation methodology among the states,
23 but I don't know if I'd necessarily translate that
24 into a benefit to Washington ratepayers. Obviously,
25 each individual state could decide on an appropriate

0164

1 interstate allocation methodology just for that
2 state, and that there would be some sound basis for
3 both approaches.

4 Q. Do you believe that a common basis of
5 regulation and cost recovery reduces regulatory risk
6 faced by the Company?

7 A. Yes.

8 Q. Do you believe that having a common basis of
9 regulation and cost recovery reduces uncertainty
10 regarding cost recovery for the construction of new
11 resources?

12 A. It could potentially, again, but there may
13 be reasons why different methods are appropriate for
14 different space.

15 Q. Do you believe that a common basis of
16 regulation of cost recovery would facilitate
17 long-term least-cost planning of new resources?

18 MS. DAVISON: Your Honor, I guess at this
19 point I'm going to object. If there's going to be a
20 long series of questions on MSP, the ICNU witness on
21 this point is Mr. Falkenberg, and he's prepared to
22 talk about it in detail. Mr. Schoenbeck, as he has
23 just testified to, has made an adjustment for MSP on
24 an accounting basis based on the fact that it's a
25 nonrecurring expense, and he states that the

0165

1 substance of MSP is covered by Mr. Falkenberg.

2 MR. HALL: Your Honor, I'm not intending to
3 go into a long question and answer about MSP; I'm
4 just trying to establish that there would be some
5 benefit to the Company's customers, as well as the
6 Company to having a six-state allocation system.
7 He's already conceded that the Company would benefit
8 from it, and I'm just trying to show how a benefit to
9 the Company is a benefit to the Company's customers.

10 JUDGE MOSS: Is your litany long?

11 MR. HALL: That's up to Mr. Schoenbeck.

12 JUDGE MOSS: Well, he's answering very
13 succinctly, but your question is getting ponderous,
14 because you're repeating yourself every time. Is
15 there some way to shorten that up? You've already
16 asked him the general question whether the customers
17 benefit, and I think he's answered that pretty well.

18 Q. So let me just restate the question. Do the
19 customers -- do the Company's customers benefit from
20 having a six-state allocation?

21 A. I'm not sure about that.

22 Q. Okay. Okay. Just a couple more questions
23 about -- on this.

24 JUDGE MOSS: Sure, go ahead.

25 Q. Do you agree that the Company should be able

0166

1 to recover its regulatory expenses?

2 A. Not necessarily. I think this is obviously
3 becoming a very significant issue where companies are
4 putting an incredible amount of capital and effort
5 into regulatory cases that simply cannot come close
6 to being matched by intervenors. This gets back to
7 the heart of the issue where an intervenor such as
8 ICNU has a fraction, less than an order of magnitude
9 of the budget to participate in this case versus what
10 we're seeing utilities expend for these efforts. So
11 it becomes impossible for us to do the type of effort
12 we truly need to do to go through the filing in the
13 detail we need to go through it.

14 So I, quite frankly, think something
15 particularly needs to be done in this state with
16 respect to either disallowing a percentage of
17 regulatory expense incurred by the Company as going
18 to the benefit of the shareholders, or that there be
19 some major intervenor funding that is then included
20 in the utility rights.

21 Q. Are you aware that, among the costs you
22 propose to disallow are travel expenses that enabled
23 certain parties to participate in the MSP?

24 A. Oh, yes, I am.

25 Q. Are you aware that ICNU represented to the

0167

1 Company that reimbursement of its travel expenses was
2 needed to allow it to participate in MSP?

3 A. Yes, I am.

4 Q. Are you aware that the Company's reimbursed
5 ICNU for its MSP travel expenses?

6 A. I'll take that subject to check.

7 Q. Is it your position that Mr. Falkenberg and
8 Mr. Cannon's travel expenses to Boise and elsewhere
9 to participate in MSP should be paid for out of the
10 pockets of the Company's shareholders?

11 MS. DAVISON: I object on the basis that
12 that is not a factually correct statement.

13 JUDGE MOSS: The question to the witness is
14 not a factual statement at all. It's a question of,
15 Mr. Schoenbeck, do you agree with that or not?

16 THE WITNESS: I guess it's what I was saying
17 to you. I think something does need to be done with
18 respect to -- I do not believe all the costs should
19 be borne by the Company's ratepayers, so yes,
20 implicitly, that means some should be borne by
21 Company shareholders.

22 Q. Just one last question. If some are borne
23 by the Company's shareholders, who bears the rest?

24 A. The Company customers.

25 Q. Thank you. Let's move on to Snake River

0168

1 litigation costs.

2 A. Certainly.

3 Q. That's page 15 of your testimony. Would you
4 agree that this case was essentially -- was a dispute
5 over access to PacifiCorp's transmission lines?

6 A. Yes.

7 Q. Is it your position that
8 transmission-related disputes are unique?

9 A. No.

10 Q. Is it your position that they are
11 nonrecurring?

12 A. No.

13 Q. Do you think it's foreseeable that, in the
14 future, PacifiCorp might incur litigation expenses
15 related to disputes regarding its transmission lines?

16 A. It could very well -- I absolutely believe
17 it will, but of course the point of our testimony has
18 nothing to do with what the issue of the litigation
19 was; it was the magnitude of the litigation.

20 Q. Okay. Good point. Have you reviewed Mr.
21 Weston's rebuttal testimony on this adjustment?

22 A. Yes, I did.

23 Q. At page nine, line 21, Mr. Weston's rebuttal
24 testimony, he stated that, in 2002, the Company
25 incurred Yakima litigation costs of approximately one

0169

1 million dollars. Do you see that?

2 A. I know I saw it. I think he refers to
3 another case, as well. What line are you on?

4 Q. Line 21.

5 A. Yes, I see that.

6 Q. And he also stated that, in 2004, so the
7 year after the test year, the Company incurred
8 litigation expense related to Lewis River of
9 approximately 1.1 million. Do you see that?

10 A. Yes, it was with regard to the hydro
11 facility.

12 Q. Do you have any basis to -- again, we're
13 just talking about magnitude; right?

14 A. Yes.

15 Q. Do you have any basis to disagree with Mr.
16 Weston's testimony?

17 A. Not with regard to those two particular
18 items, but, again, I think what I'd like to note is,
19 in our comparison of FY '04 versus FY '05, for the
20 law firm that was doing the litigation, as part of
21 their legal fees, those legal fees are approximately
22 one million dollars less, which is about -- it's
23 tough to equate, you know, an apple to an orange, but
24 it's two different fiscal years and there has been a
25 significant drop-off in their A&G expense, including

0170

1 their legal A&G expenses.

2 Q. With respect to the Snake River litigation?

3 A. Oh, well, you can --

4 Q. Is that what you're talking about?

5 A. No, I was talking about -- well, I was
6 talking about overall, but you can certainly look at
7 Exhibit 459 and see, for the Snake River litigation
8 adjustment, it's -- the total the Company spent on FY
9 '04 is \$110,000, but I was actually talking in terms
10 of the entire legal expense between the two years.

11 Q. Could the reason the cost of the litigation
12 dropped down that the litigation's ended?

13 A. Oh, absolutely, yes.

14 Q. Okay.

15 A. And that's what we saw. That's why the --
16 our 923 analysis has a long history that started in
17 Oregon, addressing the same issue in a PacifiCorp
18 Oregon case, so based on the information that we were
19 provided in this case with respect to Washington for
20 these two years, I'm still very comfortable with my
21 million dollar adjustment --

22 Q. Okay.

23 A. -- including a significant portion for
24 litigation.

25 Q. Would you -- so to bring it back to this,

0171

1 would you agree that, according to Mr. Weston's
2 testimony, for each of the past three years, the
3 Company has had at least one litigation matter with
4 expenses of approximately a million dollars or more?

5 A. Yes, that's what his testimony says.

6 Q. So would you agree that we're starting to
7 see a pattern here of one large litigation matter a
8 year?

9 A. I'd say, you know, potentially, possibly,
10 but that's when I go back to what's kind of the
11 top-down approach, as opposed to the bottoms-up
12 approach. On the top-down approach, when you look at
13 the entire legal budget, I'm very comfortable with my
14 adjustment in this instance.

15 Q. Would you be surprised if the Company had a
16 litigation matter next year that had a million
17 dollars or more of expenses?

18 A. Not necessarily. You know, again, it could
19 happen.

20 Q. Would you say that having a litigation
21 matter with expenses of more than a million dollars
22 is a recurring event?

23 A. No, I would not consider it a reoccurring
24 event necessarily.

25 Q. Even though it's happened three years in a

0172

1 row?

2 A. Right.

3 Q. Would you agree with the statement that,
4 based upon past experience, it's foreseeable that, in
5 a given year, the Company will have a litigation
6 matter that will have costs in excess of a million
7 dollars?

8 MS. DAVISON: I object. Asked and answered
9 many times.

10 JUDGE MOSS: And also, it calls for
11 speculation. We don't know what's going to happen in
12 the future. The Company may or may not have these --
13 we know what the historical data shows us. You've
14 been through that.

15 Q. Okay. Let's move on to your transactional
16 cost analysis adjustment. That's page 19 of your
17 testimony. On lines six and eight -- six through
18 eight on page 19, you recommend an adjustment of
19 approximately \$1.3 million for fees associated with
20 transactional cost analysis; is that correct?

21 A. Yes, that's correct.

22 Q. Are you still recommending that adjustment?

23 A. Yes, we are.

24 Q. And in that amount?

25 A. Yes, we are. This transactional cost

0173

1 analysis is, as we were given the data, it consisted
2 of an Excel file that had approximately 39,000 lines
3 in it, and one of the lines that was associated with
4 the Pricewaterhouse invoices had the transactional --
5 was described simply as transactional cost analysis.
6 This is in a stark difference to the data that was
7 provided us in the Oregon case, where we could look
8 at the detailed Pricewaterhouse invoices, including
9 the hours spent by each individual, including their
10 billing rate.

11 While we have asked in total for ICNU, not
12 just in this area, we've asked a whole series of data
13 requests, we have never gotten the detail in this
14 case that we received from the same Company in the
15 state of Oregon.

16 When you look at this particular item, it's
17 actually -- turns out it's subsumed to be either two
18 or three items, all of which have been for efforts
19 that have been completed. Pricewaterhouse's invoices
20 to PacifiCorp are in a bi-monthly basis because of
21 the magnitude of them. The items subsumed under
22 transactional cost analysis in FY '04 total \$35,000.

23 So again, we believe an adjustment such as
24 this -- in fact, if you look at the -- going back to
25 my overarching view, if you can compare FY '03 to FY

0174

1 '04 to Pricewaterhouse, the Company has given them
2 over \$3 million less in FY '04. A substantial part
3 of it, over a million dollars, is directly
4 attributable to the items subsumed under the
5 transitional cost analysis, which was completed in
6 the first two weeks of FY '04. So I still firmly
7 believe this adjustment is appropriate.

8 Q. We sent you a data request asking for more
9 detail on this adjustment. That was Data Request
10 1.79, which is marked as Exhibit 469. Do you see
11 that?

12 A. Yes, I do.

13 Q. I think that's the one where you added a few
14 invoices to it. Do you recognize what's been marked
15 as Exhibit Number 469 as a copy of your response to
16 Data Request 1.79?

17 A. Again, I stated earlier that the first three
18 pages of Exhibit 469 shows a portion of the response.
19 It's kind of difficult. Basically, what we did to
20 respond to Data Request 1.79 is we gave the first
21 page, and then we followed it up with a supplemental
22 written response, but really the crux of the
23 response, it was really an Excel spreadsheet, and
24 what pages --

25 Q. Could I interrupt? I might be able to save

0175

1 us some time here.

2 A. Okay.

3 Q. It was a long spreadsheet, there's a lot of
4 data here, a lot of items. What I did, for the
5 convenience of everyone, was I excerpted what I think
6 is the part that you had for your transactional cost
7 adjustment, and so page two of the exhibit is just
8 that excerpted out of many hundreds of pages of an
9 Excel file, and page three is just an enlarged
10 version, for those of us who are visually challenged,
11 to make it a little easier on the eyes.

12 Subject to check, Mr. Schoenbeck, would you
13 accept that these are excerpts from the Excel file
14 that you sent us in your response to Data Request
15 1.79?

16 A. I think there's one very minor thing that
17 wasn't part of the spreadsheet, and then, on page
18 two, I don't think we had that subtotal on it, but
19 I'd have to look at that. I don't believe that was
20 part of it, but -- because, again, what you did is
21 the spreadsheet had many, many rows, and I don't
22 believe we had a subtotal there. We may have, but I
23 don't think so.

24 Q. Okay. Is the subtotal the amount all the
25 way to the right?

0176

1 A. Right.

2 Q. I'd be willing to just strike that out right
3 now or -- my questions don't have anything to do with
4 that subtotal.

5 A. Okay.

6 Q. Okay. So with all those qualifications,
7 would you accept, subject to check, that this is an
8 excerpt from your Excel file, which was a response to
9 the Company's data request?

10 A. Yes.

11 MR. HALL: Your Honor, at this time, I'd
12 like to move Exhibit Number 469 into the record.

13 JUDGE MOSS: I have it as already admitted.

14 MR. HALL: That was the one exception that
15 we left out because --

16 JUDGE MOSS: Ah.

17 MR. HALL: -- we needed to work through
18 this.

19 JUDGE MOSS: Is there objection?

20 MS. DAVISON: I just have one question of
21 Mr. Schoenbeck, and I believe, if it's the answer
22 that I think it's going to be, then I don't have an
23 objection.

24 JUDGE MOSS: Go ahead and propound your
25 question.

0177

1 V O I R D I R E E X A M I N A T I O N

2 BY MS. DAVISON:

3 Q. Mr. Schoenbeck, the other documents that are
4 included as an attachment to Data Request 1.79, are
5 those documents that the Company provided to you in
6 response to a data request?

7 A. I believe they are, but we did not provide
8 them back to the Company in response to 1.79.

9 JUDGE MOSS: All right. I think we
10 understand. Thank you very much. With that, we'll
11 admit the exhibit.

12

13 C R O S S - E X A M I N A T I O N (CONTINUING)

14 BY MR. HALL:

15 Q. Thank you, Mr. Schoenbeck. So I'd like to
16 work from page three, it's enlarged, a little easier
17 to read, but it's the same as what is on page two,
18 except that the far right -- or I'm sorry, the far
19 left column is not included on page three.

20 So working from page three, we've
21 highlighted the entries that appear to correspond to
22 your adjustment, and I want you to kind of help
23 confirm, first of all, that we're on the right page
24 and looking at the right thing.

25 JUDGE MOSS: Before we go on to this, Mr.

0178

1 Hall, how many more questions do you have for Mr.
2 Schoenbeck?

3 MR. HALL: Your Honor, I think I'm well
4 within my time, and 10 minutes.

5 JUDGE MOSS: Let's go ahead and take a break
6 anyway.

7 MR. HALL: Okay.

8 JUDGE MOSS: We'll take a 15-minute break.

9 MR. HALL: Okay.

10 JUDGE MOSS: Thank you.

11 (Recess taken.)

12 JUDGE MOSS: Appears we're ready to go back
13 on the record. And we were having some inquiry
14 concerning Exhibit Number 468.

15 Q. So Mr. Schoenbeck, going back to page three,
16 you'll see that in the middle of the page I've
17 highlighted --

18 A. Yeah.

19 Q. Do you need to find that?

20 A. Well, I'm sorry, I thought somebody said
21 Exhibit 468. Was it 469?

22 Q. 469.

23 A. Oh, excuse me.

24 JUDGE MOSS: My apologies. My mistake.

25 THE WITNESS: I'm sorry. What page is that?

0179

1 Q. Page three.

2 A. Okay.

3 Q. Do you recall we had two pages, pages two
4 and three, with a spreadsheet, and they're both the
5 same; it's just enlarged on page three to make it a
6 little easier to read.

7 A. Yes, plus there are several more entries on
8 page three than on page two.

9 Q. Yes, yes, thank you for that. So subject to
10 check, would you agree that the highlighted entries
11 on page three total \$1,289,745?

12 A. I don't see any highlighted entries on page
13 three.

14 JUDGE MOSS: That highlighting is barely
15 visible on the copies. I believe it starts at the
16 line that says December 16th through 31st?

17 MR. HALL: Actually, Your Honor, it's just
18 one line above that, but you're right.

19 JUDGE MOSS: Okay. One line above that.

20 THE WITNESS: Is it just the two lines? Is
21 it the 349,000, the 59,000 are highlighted?

22 Q. No, there's about 10 or 11 items that are
23 highlighted. I could run down the list real quickly,
24 beginning at 349,021.

25 A. Well, is it basically the items on page two?

0180

1 Q. Yes, it's the items on page two.

2 A. Okay.

3 Q. We can go from page two. That will work. I
4 apologize. I've confused things by trying to be more
5 helpful. Subject to check, would you agree that
6 those items total \$1,289,745?

7 A. I thought the subtotal on page two was what
8 those items totaled to, the \$1,123,000.

9 Q. I don't know what that number represents.
10 I'm talking about the invoice amounts.

11 A. I'll take it subject to check.

12 Q. Thank you. So subject to check, would you
13 agree that this is the group of approximately 1.3
14 million in adjustments for transactional cost
15 analysis referred to on page 19 of your testimony?

16 A. Yes, I definitely accept that.

17 Q. Okay, thank you. So let's look at the first
18 line. That's \$349,021?

19 A. Yes, that's correct.

20 Q. Is there anywhere in your testimony that
21 explains why that amount is part of the transactional
22 cost analysis?

23 A. No, we explained that in response to a data
24 request.

25 Q. Okay. Directing your attention to pages

0181

1 four through 12 of the exhibit, there's a series of
2 invoices there. Would you -- would you assume that
3 pages four through 12, subject to check, are the
4 three invoices that totaled \$349,021?

5 A. Actually, I will not accept that subject to
6 check. The problem with -- sitting here today, I
7 cannot verify that's the case. Our analysis on this
8 adjustment was based on the Excel spreadsheet the
9 Company had provided us, which a subportion of is
10 Exhibit 2. And the 349,000, as you can see in page
11 two, had no description associated with it. It's
12 literally the blank line.

13 So it seems like you're asking me to accept
14 something to check that goes beyond taking three
15 invoices that could total up to that amount. I'm
16 sorry. Actually, are you saying pages four, five and
17 seven?

18 Q. Four, five, six, seven, eight, nine, 10, 11
19 and 12. And there's multiple pages for each one, but
20 it's the invoice, the cover letter, and the invoice
21 -- the payment approval.

22 A. Well, the pages you just stated would add up
23 to well in excess of \$349,000; right?

24 Q. The first three pages relate to the first
25 item, \$133,300; the second three pages are for

0182

1 35,000; and then the third -- and then pages 10, 11,
2 12, the last three pages, are 179,000. Would you
3 agree, subject to check, that those three amounts add
4 up to \$349,021?

5 A. Well, again, I could take that subject to
6 check, but it's --

7 Q. Okay.

8 A. -- hard for me to connect these invoices
9 back to the value on the spreadsheet, other than I
10 can say it mathematically matches, subject to check.

11 Q. Okay. Is there any place --

12 CHAIRWOMAN SHOWALTER: Just one minute. I
13 just want to make clear -- it sounded to me, Mr.
14 Schoenbeck, as if you were saying this is not
15 something you can check. If it is, that's one thing.
16 If it's not, you can reform your question to say
17 assume -- you can ask the witness to assume something
18 that he can't check, but then it's a different kind
19 of question. But I wanted to be clear, because I
20 thought you said you couldn't check this.

21 THE WITNESS: I could check -- what I
22 thought I was trying to say, I could check that the
23 math could add up to that same number, but I don't
24 know if I would verify on just even this information
25 that these invoices were, in fact, the invoices

0183

1 associated with this particular unnamed entry in the
2 data settlement.

3 What you have to understand is, when you're
4 talking about the Pricewaterhouse invoices, it is a
5 substantial stack of documents that you're going
6 through, and I don't know of a cross-reference that's
7 coming to mind of how I could verify to trace through
8 those invoices to this line.

9 Q. Following up on Commissioner Showalter's
10 question, is there any way that we have to go back
11 and find out what you looked at to get to that
12 \$349,021 adjustment on your spreadsheet?

13 A. Yes, it was the data response that -- part
14 of it is shown on page two. That was the number.

15 Q. And I see the number on the page, but to
16 look at the backup for that number, is there any way
17 that we can confirm what the basis is for that
18 number?

19 A. Well, perhaps you can. I'm saying I cannot.

20 JUDGE MOSS: Let's see if we can cut through
21 this, because we're spending an inordinate amount of
22 time on it, it seems to me. Mr. Schoenbeck, I think
23 the question is, and I may have this wrong, but I
24 think the question is why did you include the
25 \$349,021 as part of your adjustment for this

0184

1 transactional cost adjustment?

2 THE WITNESS: And we explained that in a
3 data response.

4 JUDGE MOSS: In the narrative response?

5 THE WITNESS: Yes, I'm just -- I thought it
6 was in this grouping.

7 MR. HALL: Your Honor, I'm willing to move
8 on at this point. We're spending, I think, too much
9 time here.

10 JUDGE MOSS: Well, let's see if he can
11 quickly give us the answer.

12 THE WITNESS: Well, maybe the problem is
13 they did not include that as one of the exhibits.
14 Well, I'll paraphrase what the data response said.
15 Basically, we talked in terms it was unidentified
16 amount, so we thought it was appropriate, given the
17 very small percentage it was of the Pricewaterhouse
18 fees to include it in this adjustment, since we had
19 no idea what it was for. That's why we were
20 proposing to throw it out, because there was no
21 support for it.

22 JUDGE MOSS: All right. Thank you. Okay,
23 now, Mr. Hall.

24 Q. Thank you. Okay. Now, going back to page
25 two, the next line item is for an amount \$59,650. Do

0185

1 you see that?

2 A. Yes, I do.

3 Q. And then, turning to page 15 of the exhibit,
4 there's an invoice there for \$59,650?

5 A. Yes, there is.

6 Q. Is this the invoice that corresponds to your
7 adjustment on page three, or page two?

8 A. Yes, it is. Yes.

9 Q. Is it your position that this invoice shows
10 that the Company incurred \$59,650 in costs related to
11 transactional cost analysis study?

12 A. No, this is, as I was explaining prior to
13 the break, how the transactional cost analysis study
14 invoices are a whole series of invoices like this.
15 The entire effort for the transactional cost analysis
16 specifically was, rough figure, approximately
17 \$250,000. The remaining amount, which is roughly a
18 million dollars, is associated with the simplified
19 service cost 263 study, and it's our recommendation
20 that both of these expenses be thrown out.

21 Q. Can you point to me anywhere in your
22 testimony where you've described the simplified
23 service cost 263-A study or explained why that should
24 be treated as an adjustment?

25 A. Our testimony went with the brief

0186

1 description of these invoices that were received from
2 the Excel file, so if you go back to page two, you'll
3 -- what I'm really -- we're just simply talking about
4 Pricewaterhouse invoices here, so you're really
5 talking about it's the fourth column over, but it's
6 where there's a brief descriptor. In this series of
7 invoices, it's described as transactional cost
8 analysis, so we just went with the same labeling in
9 our adjustments.

10 The problem, again, with some of these
11 invoices, if you actually look at them, they are --
12 they generally cover very detailed areas. When we
13 put our testimony together, when we wrote our
14 testimony, all we had at that time analyzed was, in
15 fact, this very large Excel file. We got a very
16 large stack of Pricewaterhouse invoices that were
17 typical of what you're seeing as the attachments to
18 this exhibit, where what they had done was they had
19 taken the first two or three cover pages from
20 actually what is a very thick invoice, but that just
21 came in about two days before our testimony was due.

22 So we hadn't had an opportunity to go
23 through all those invoices in the detail we would
24 have liked when we had done our testimony. There's
25 just simply not enough hours in the day, not enough

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1 manpower. So now, like in any case, you continue to
2 analyze the responses and you continue to see the
3 information that's available to you, and where we are
4 on this adjustment with -- these particular
5 adjustments is what I said earlier. This was, in
6 aggregate, \$1.5 million of Pricewaterhouse costs for
7 a fiscal year that are -- that did not occur in a
8 subsequent year, because it involved an analysis, it
9 involved providing consulting services.

10 The Pricewaterhouse expense for FY '04 is
11 over \$3 million less than it was for the test period,
12 FY '03. This is a significant portion of it, and
13 that's why we believe these costs should still not be
14 allowed in as not being normalized to rate-making.

15 What you have to understand, as part of the
16 whole restructuring process, you go back to why are
17 we in a rate plan? We're in a rate plan because
18 PacifiCorp realized this is the time to change. This
19 is certainly a time to change for their outside
20 services fees. Their outside service fees in the
21 year 2002 were about \$52 million. Their outside
22 service fees in the year 2003, the rate year, are \$45
23 million. Their outside service fees in the year
24 2004, their fiscal year they just completed, is
25 \$37,000. Or excuse me, I'm saying thousand, but

0188

1 they're actually millions, so it's 52 million, it's
2 down to 45 million, now it's down to 37 million. A
3 major part of it is efforts such as this that are
4 just not ongoing, and that's why we believe these are
5 -- and our appropriate adjustment for A&G expense is
6 around a million dollars for the state of Washington.

7 Q. Mr. Schoenbeck, in the interest of time,
8 would you be willing to admit that there's
9 approximately a million dollars of adjustments in
10 here that have not been specifically identified or
11 explained?

12 A. No.

13 Q. Would you be willing to -- is there anywhere
14 in your testimony where the explanation that you've
15 just given us about PricewaterhouseCoopers invoices,
16 in general, is there anywhere in your testimony where
17 you've made an explanation similar to the testimony
18 you just gave?

19 A. No, because what I said, when we wrote our
20 testimony, we did not -- we had not looked at these
21 invoices, given they came about two days and after a
22 whole series of data requests requesting this
23 information from the Company. They hadn't been
24 forthcoming with it.

25 Q. So you made an adjustment and you haven't

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1 specified the basis for that in your testimony?

2 A. Again, we did it on the best available
3 information we had at the time we wrote our
4 testimony. Subsequent to the drafting of that
5 testimony, we reviewed our adjustment and we think it
6 is still entirely appropriate.

7 Q. Would you agree that about a million dollars
8 of your adjustment does not relate to transactional
9 cost analysis?

10 A. I'd say to use the phrase as a specific
11 subtotal on PWE invoices for FY '03, transactional
12 cost analysis is approximately \$250,000. The
13 simplified service cost approach, which had to do
14 with capitalizing versus expensing purposes for
15 corporate taxes, was approximately a million dollars.

16 MR. HALL: Okay. Thank you. No further
17 questions, Your Honor.

18 JUDGE MOSS: Thank you. Ms. Smith, are you
19 going to have any questions? All right. Well, we
20 have 10 minutes, so we can see if the bench has
21 questions.

22 CHAIRWOMAN SHOWALTER: No, I don't.

23

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

25 BY COMMISSIONER HEMSTAD:

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1 Q. I'm trying to get a handle on globally where
2 -- how the differences between the parties are at the
3 present time. The settling parties have this figure
4 of \$15.5 million as the amount that would be fair,
5 just and reasonable, and I believe your oral
6 statement was that ICNU's conclusion is that the
7 Company's entitled to something less than five
8 million. Is that -- do I understand that correctly?

9 A. That's correct. The \$15.5 million number
10 that the Staff and Public Counsel -- excuse me, Staff
11 and NRDC and the Company have agreed to does not
12 include approximately \$9 million of adjustments ICNU
13 believes is appropriate, of which approximately two
14 million of that is associated with my two particular
15 adjustments. The other seven million are associated
16 with Mr. Falkenberg. In addition to that, it does
17 not include some number in the millions of dollars
18 with regard to Public Counsel adjustments.

19 Q. Okay. And then I think I understood you to
20 say that if the Commission ultimately were to
21 conclude that the settlement number is justified, it
22 should be allowed only beginning in January 1, 2006.
23 Is that because that would follow the five-year rate
24 plan?

25 A. That's exactly right.

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1 Q. But your -- I shouldn't say but. The less
2 than \$5 million figure that ICNU thinks is
3 appropriate, does that interrelate with the factors
4 in the rate plan itself?

5 A. That's actually not taking into account the
6 rate plan. The \$5 million figure, which was provided
7 in response to Bench Request Number 3, was calculated
8 taking all the ICNU adjustments and employing just
9 one other additional factor, and that was the Public
10 Counsel/Staff advocated cost of capital, which was
11 common equity of 9.375 percent. So that, in my
12 perspective, as kind of a general rate case
13 adjustment, should be no more than \$5 million.

14 What I was trying to say earlier is, with
15 respect to a rate plan, when you'd expect the return
16 on equity to be in the seven to eight percent range
17 parties were anticipating at that time, that's when I
18 believe no adjustment is required.

19 And that's what we have to be careful about,
20 I think, particularly if you look at -- I don't want
21 you to misinterpret Exhibit 460. 460 is showing how,
22 under the settlement between the Company, Staff and
23 NRDC, under their own settlement, without taking into
24 account any of the ICNU adjustments, without taking
25 into account any of the additional Public Counsel

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1 adjustments, that that will be at about a seven
2 percent to 7.3 percent return on common equity. So
3 we're saying, under a rate plan perspective, that is
4 good enough. That is what they are expecting. There
5 should be no change in rates.

6 So if you were to accept some of our
7 adjustments, which I obviously think are totally
8 appropriate, that return on common equity would rise
9 above the seven percent level.

10 Q. Okay. Do you have -- and maybe this is
11 better addressed to Mr. Falkenberg -- a view about
12 the revised protocol, or is that his area?

13 A. That is his area.

14 COMMISSIONER HEMSTAD: All right. I'll
15 await his testimony. I think that's all I have.

16 COMMISSIONER OSHIE: I have no questions.
17 Thank you.

18 JUDGE MOSS: All right. Are you going to
19 have any redirect?

20 MS. DAVISON: No, Your Honor.

21 JUDGE MOSS: All right. Then Mr.
22 Schoenbeck, although it may be a little short of a
23 miracle, it appears we're going to be able to release
24 you from the stand before the noon break. We
25 appreciate your testimony today very much. Thank

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1 you, and you may step down. We'll need to take our
2 noon recess, and we'll need to come back at 1:30, at
3 which time we'll pick up, I believe, with Mr. Furman?

4 MR. VAN NOSTRAND: Yes.

5 JUDGE MOSS: Okay. Great. We'll see you
6 all then.

7 (Lunch recess taken.)

8 JUDGE MOSS: Mr. Furman, if you'd please
9 rise and raise your right hand.
10 Whereupon,

11 DONALD N. FURMAN,
12 having been first duly sworn, was called as a witness
13 herein and was examined and testified as follows:

14 JUDGE MOSS: Thank you. Please be seated.

15

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

17 BY MR. VAN NOSTRAND:

18 Q. Mr. Furman, could state your name for the
19 record, please?

20 A. Donald N. Furman.

21 Q. And what's your position with the Company?

22 A. I'm Senior Vice President of Regulation and
23 External Affairs.

24 Q. And did you pre-file direct and rebuttal
25 testimony in this case?

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1 A. I did.

2 Q. And your direct being Exhibit 31 and your
3 rebuttal being Exhibit 32. If I asked you the
4 questions set forth in that pre-filed testimony
5 today, would your answers be the same?

6 A. They would.

7 Q. Do I understand that you are adopting the
8 testimony of Ms. Johansen in this proceeding?

9 A. I am.

10 Q. And the accompanying Exhibit 22?

11 A. Yes.

12 Q. And with the exception of the Q and A on
13 page one, which is specific to Ms. Johansen, page
14 one, lines one through 20, if I asked you the
15 questions set forth in Exhibit 21, would your answers
16 be the same?

17 A. With that exception, yes.

18 MR. VAN NOSTRAND: Your Honor, I'd move the
19 admission of Exhibits 31, 32, and 21 and 22.

20 JUDGE MOSS: There being no objection, those
21 will be admitted.

22 MR. VAN NOSTRAND: And Mr. Furman is
23 available for cross-examination.

24 JUDGE MOSS: All right. And I have both
25 ICNU and Public Counsel indicating a desire to

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1 cross-examine these witnesses, or Mr. Furman with
2 respect to these two testimonies. So I've identified
3 your exhibits beginning at 23 there, Ms. Davison, by
4 the way, although I believe you indicated your cross
5 was with respect to Mr. Furman's testimony.

6 MS. DAVISON: That's correct.

7 JUDGE MOSS: So just to alert you to that.
8 Did the parties have a preference as to order? Ms.
9 Davison, you may go first.

10 MS. DAVISON: Thank you, Your Honor.

11

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

13 BY MS. DAVISON:

14 Q. Good afternoon, Mr. Furman.

15 A. Good afternoon.

16 Q. You just stated that you have the title
17 Senior Vice President of Regulatory and External
18 Affairs. Does that include overseeing the
19 multi-state process commonly known as MSP?

20 A. It does not.

21 Q. Who has that responsibility?

22 A. My colleague, Andy MacRitchie.

23 Q. And have you been involved in the MSP
24 process in any way?

25 A. Yes.

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1 Q. Can you describe what your involvement or
2 your responsibilities are with regard to MSP?

3 A. Well, probably three different -- I guess my
4 involvement has taken three different forms. One is
5 simply participating in the public process. I didn't
6 attend every meeting, but I attended a number of
7 them.

8 Second, while the MSP project, we call it,
9 doesn't report directly to me, obviously it affects
10 matters of great consequence to my organization, so I
11 have been very closely involved with Mr. MacRitchie,
12 Ms. Kelly, Mr. Duvall and so on in terms of policy
13 decisions that have been made.

14 And then, third, just simply as a member of
15 the senior management team participating in the
16 regular briefings that we received on the process.

17 Q. Did you play any role in the settlement
18 between PacifiCorp and Staff in this proceeding?

19 A. I was not in the room during the settlement
20 discussions, if that's your question.

21 Q. What role did you play with regard to
22 settlement?

23 A. I was -- certainly was in the position to
24 authorize negotiation boundaries and was in contact
25 with the folks after the initial settlement was

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1 reached.

2 Q. Does PacifiCorp have a goal with regard to
3 the protocol -- and I'll include original or revised
4 protocol -- to ensure that the costs from other
5 jurisdictions are not shifted on to Washington
6 ratepayers?

7 A. I think the goal, if I could restate it, is
8 to assure that customers in all of our states are
9 paying a fair, just and reasonable rate based on a
10 rational and supportable allocation methodology.
11 There's lots of different ways to do that, but
12 ultimately what we're trying to do is arrive at a
13 single methodology that all of the commissions can
14 agree is fair. That's how I would state our goal.

15 Q. Could I assume from that answer that you
16 don't have a specific goal as it relates to cost
17 shifts to Washington ratepayers?

18 A. I'm not sure what you mean by cost shifts.
19 Could you define that a little bit better?

20 Q. What I'm referring to is the issue that has
21 focused largely on Utah load growth, and the fact
22 that Utah has been growing at a much faster rate than
23 your other jurisdictions, and that has resulted in a
24 lot of controversy, certainly in Oregon, as I'm sure
25 you're aware, about costs related to that load --

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1 serving that load growth being shifted to your other
2 jurisdictions.

3 A. Was there a question there?

4 Q. My original question is what's the Company's
5 view with regard to that issue and the rates that
6 Washington ratepayers are paying?

7 A. There's no -- I don't know that I would
8 agree that it was a huge controversy. It was
9 certainly one of the major driving issues in the
10 discussions on MSP, that being concern particularly
11 out of the Western -- what we would call our Western
12 states, primarily Oregon and Washington, about Utah
13 load growth and having an allocation methodology that
14 effectively dealt with and fairly allocated costs by
15 taking into account which jurisdiction was growing.

16 So I would agree with you that that was a
17 major issue and I would agree with you that it was a
18 -- because it's a major issue, it's a concern to the
19 Company.

20 Q. And how has that issue been dealt with here
21 with regard to the settlement?

22 A. Well, the settlement speaks for itself, but
23 essentially, what we've done in this case and in this
24 stipulation is to base the rates on the -- what we
25 are colloquially calling the protocol, as opposed to

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1 the revised protocol. And there's also a provision
2 in the settlement that says, on a going forward
3 basis, we will report our financial results of
4 operations on a revised protocol basis, and there's
5 also a provision that says we will essentially live
6 to fight another day and spend time going forward on
7 working with Staff and the parties on an allocation
8 methodology that is appropriate for Washington.

9 Q. Does PacifiCorp have an explicit objective
10 with MSP to ensure that Washington rates are no
11 higher than they would have been without the Utah
12 Power and Light and Pacific Power and Light merger?

13 A. I guess that's a difficult question to
14 answer, because I firmly believe that the current
15 rates, as well as any rates that might be made on a
16 going forward basis, based on our costs, under almost
17 any allocation methodology, are going to be lower
18 than they otherwise would have been. I think
19 customers across our system, but including
20 Washington, benefited greatly from that merger.

21 So I don't -- is it an explicit goal of ours
22 to assure that, you know, we have the equivalent of
23 what the regional act has in 7(B)(2) that says rates
24 will be no higher than they would have been but for
25 the act. I suppose -- I have to say I don't think

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1 that's an explicit goal. The merger happened 15
2 years ago, and again, I think that rates are lower,
3 just as a factual matter, and will stay lower, but it
4 is not the issue that is driving allocation.

5 The issue that is driving the allocation
6 issue is to have a common platform on which we can
7 allocate costs and plan and operate our system. And
8 right now, we don't have that, so I mean, that's the
9 underlying overwhelming goal.

10 So I -- two parts to the answer. One is I
11 don't think, factually, they will be higher, but
12 second, it's not what's driving this process.

13 Q. Are you aware that that commitment that I
14 just described to you, that rates will not be higher
15 than they otherwise would have been without the
16 original merger, is in fact a condition of approval
17 of the original merger?

18 A. I was not specifically aware of that, but
19 I'm not surprised. I wasn't here at the time.

20 Q. So my question to you is that if this
21 Commission adopts the settlement and puts protocol in
22 place, will that merger commitment remain in effect
23 or will it be overridden by protocol?

24 A. I guess that's a legal question, but my lay
25 answer -- and I am a lawyer, so I have to -- I

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1 probably have to answer that question. I think the
2 -- unless that order and that provision of that order
3 is expressly overturned, I wouldn't think that that
4 provision would go away.

5 Again, you know, the benefits of the merger
6 are overwhelming. I mean, flat rates for 12 years, a
7 rate decrease to begin the merger. Rates are now
8 just back at the level they were pre-merger, you
9 know. Meanwhile, inflation has been well over,
10 combined -- on a combined basis, well over 50
11 percent. So I don't -- I mean, it's an interesting
12 question in theory, but I don't think it's even
13 remotely close to the facts.

14 Q. Well, I appreciate your perspective on that,
15 but could I conclude from your answer that the
16 Company is willing to live by that Utah Power and
17 Light/PP&L merger condition that rates in Washington
18 will not be higher than they otherwise would have
19 been without the merger?

20 A. Yeah, again, I don't -- assuming that that
21 is in the order, and I haven't read the order, but
22 assuming that's in the order, we will, of course,
23 comply with orders that are issued by this
24 Commission.

25 Q. And so, just to be clear, there's nothing in

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1 that adoption of the protocol that would extinguish
2 that obligation?

3 A. I would not think so.

4 Q. I believe you just stated that one of your
5 overarching goals for the MSP process is for the
6 Company to obtain uniform cost allocation
7 methodologies in the various jurisdictions; is that
8 correct?

9 A. Yes.

10 Q. How does utilizing original protocol in
11 Washington meet that objective?

12 A. Well, and this case is a unique case,
13 because the Company had a clear need for revenue in
14 its Washington jurisdiction. And the MSP process was
15 a long process, it was complicated, it was
16 extraordinarily dynamic and it was extraordinarily
17 iterative. When we filed this case, we believed that
18 the protocol under which we filed it was, if not the
19 protocol that would be observed by the other states,
20 very close to what we would wind up with. As it
21 turned out, that wasn't the case.

22 So the Company was caught in a difficult
23 situation where we had a need for revenue, we had a
24 need to process a rate case, but we didn't have final
25 resolution of MSP. As it turned out, it appears,

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1 like at least some of the larger states in our
2 jurisdictions are beginning to coalesce around an
3 agreement, we don't have a final agreement yet, but
4 we -- the process is moving forward in Oregon, Utah
5 and certainly Wyoming.

6 So is this perfection? No. The protocol is
7 -- has some significant differences from the revised
8 protocol, but it's -- they're relatively few in
9 number and it does move us closer to what we hope
10 someday will be a system that everybody can agree to.
11 But I think whether we get to a revised protocol in
12 Washington under the terms of stipulation is, again,
13 for another day.

14 Q. Is it accurate, then, that if the Commission
15 adopts this stipulation, that you will not have
16 uniform cost allocation methodology in all your
17 states?

18 A. We don't now, so no, we won't, but we will
19 be certainly, given everything that's going on in our
20 other states, we will certainly be closer. And I
21 think the design of the methodology is, again, there
22 are some significant differences, but they're few in
23 number. So I think we'll be a lot closer. Right now
24 we have nothing, so I don't think that's a reason why
25 this stipulation isn't a good thing.

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1 Q. Isn't it true that utilizing original
2 protocol allows PacifiCorp to recover more costs from
3 Washington ratepayers than utilizing revised
4 protocol?

5 A. Yes.

6 Q. Is it the Company's position that if
7 different states do not agree on a consistent cost
8 allocation methodology, that it will increase the
9 Company's cost of equity in risk?

10 A. I don't think there's any question about it.

11 Q. Is it correct that the Company is advocating
12 that all commissions in which it operates approve
13 revised protocol, with the exception of Washington?

14 A. Could you repeat the question? I missed the
15 first part. I'm sorry.

16 Q. Sure. Is it correct that the Company is
17 advocating that all the commissions in which it
18 operates approve the revised protocol, with the
19 exception of Washington State?

20 A. Well, at the time we filed this case -- to
21 answer your question, I don't know if I can answer it
22 with a yes or no, so let me try to explain. When we
23 filed this case, we had an active docket open in I
24 think every state advocating the protocol as a
25 allocation methodology. Because of the posture of

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1 this case, and what I mean by that is because this
2 case was essentially authorized by the Commission in
3 a prior order in which it expressed a preference for
4 dealing with allocation in the context of a rate
5 case, we have done that in this way, in this
6 jurisdiction. We're now -- we now sort of have our
7 feet in the cement, if you will, with this case,
8 because we need to prosecute the rate case. We need
9 a rate increase.

10 I think that the stipulation -- this is all
11 iterative and it is somewhat serial. We are not
12 going to get the same protocol approved at the same
13 time in every jurisdiction. Our hope is that, as we
14 move through with the other jurisdictions, we
15 complete this rate case, we will then turn around and
16 sit down and attempt to negotiate a protocol in this
17 jurisdiction.

18 So it's true that we have revised protocol
19 filed in the other jurisdictions, and in some cases
20 well along, and we don't here. But that's not
21 because of a lack of intent to pursue that in
22 Washington; it's simply the situation we find
23 ourselves in.

24 Q. If you turn to your rebuttal testimony, page
25 seven, lines 19 through 21.

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1 CHAIRWOMAN SHOWALTER: What exhibit?

2 MS. DAVISON: I'm sorry, Exhibit 32.

3 CHAIRWOMAN SHOWALTER: What was the page?

4 MS. DAVISON: Page seven, and lines 19

5 through 21.

6 THE WITNESS: Yes.

7 Q. Do you still believe that establishing rates
8 based on original protocol rather than revised
9 protocol would, quote, deny consumers the benefits of
10 the revised protocol and further complicate the MSP?

11 A. I'm sorry, say that again, because I think
12 you characterized my testimony. I'm not sure if I
13 agree with how you characterized it. Could you just
14 restate it? I lost you.

15 Q. Okay. I'm sorry. Let me try it again. If
16 you look at lines 19 through 21, you see that toward
17 midway through that sentence, it says, We hoped --
18 well, I'll just read the whole sentence, We hoped
19 that the changes would not be resisted in principle
20 in a manner that denies Washington consumers the
21 benefits of the revised protocol and further
22 complicates the MSP. And that is referring to
23 original protocol; correct?

24 A. Correct.

25 Q. Is that still your belief today?

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1 A. Not for purposes of this stipulation.
2 Obviously, this testimony was filed before we reached
3 a stipulation with the Staff and others, so our
4 position in this case, as reflected in the
5 stipulation, is that we support calculating these
6 rates based on protocol. Obviously, the Company has
7 a point of view, as expressed in this testimony, but
8 that's a point of view that we're going to take up
9 with Staff and the parties after this case is over,
10 and I think when we have an opportunity outside of
11 the rate case to talk about what's appropriate for
12 Washington.

13 Q. I guess I'm confused. When you first got on
14 the witness stand, Mr. Van Nostrand asked you if your
15 testimony was still true and correct, and based on
16 your last answer, if I understand it correctly,
17 you're actually saying that today you're not
18 advocating that consumers would be denied the
19 benefits of revised protocol if original protocol is
20 adopted. Could you explain why that isn't
21 inconsistent?

22 A. It's not inconsistent because it's a
23 stipulation and a settlement in which many things
24 were traded back and forth. And we've arrived at a
25 stipulation. It's simply a settlement that

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1 compromises a great many number of issues. The
2 testimony still stands in terms -- you know, if we're
3 in an adversarial position, which I think we are,
4 since ICNU is not part of the stipulation, so as
5 between the Company and ICNU, I still stand by this
6 testimony. In terms of the stipulation, I support
7 the stipulation, which is simply a compromise of all
8 the positions we've put in our testimony.

9 Q. Thank you. Is one of the benefits that
10 you're referring to here in your testimony to
11 Washington consumers as it relates to the revised
12 protocol an approximate \$2.5 million revenue
13 requirement reduction as compared to original
14 protocol?

15 A. Were you asking whether that's the number in
16 my testimony reflecting the difference between the
17 protocols on a Washington basis?

18 Q. Well, my question was is that one of the
19 benefits that you're referring to in your testimony
20 that you were just discussing?

21 A. It is the correct number for purposes of
22 this testimony. It doesn't necessarily translate
23 into the stipulation, because there were a number of
24 adjustments going back and forth in the stipulation,
25 but there is still a difference, and it would be

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1 revenue requirement would be lower under the revised
2 protocol; I just don't know the exact number.

3 Q. Well, let's turn to your testimony, then,
4 on page seven, line 21. Can you explain what the
5 benefits are that Washington consumers would be
6 denied if original protocol was adopted, as opposed
7 to revised protocol?

8 A. My testimony at the time, again, prior to
9 the stipulation, reflected a correct -- a Company --
10 a number I would still stand by in that sense, which
11 is \$2.5 million reduction in revenue requirement.

12 The only thing I'm saying with respect to
13 the number is because the stipulation contains a
14 number of different adjustments, that that number
15 would change somewhat. I still believe it's a
16 positive number. The other benefits are simply the
17 benefits that customers will realize if we achieve a
18 consensus among the states on how to allocate costs.
19 That is going to lower our risk in the perception of
20 the financial community, it's going to lower our cost
21 of capital as a result. It's a subjective issue;
22 it's not something that you can probably calculate
23 easily, but that doesn't make it any less real.

24 And I guess another advantage is that if the
25 various states can agree on a protocol, it means we

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1 don't have to fight about it anymore and we can move
2 forward if it's a fair and rational protocol. So
3 those are the benefits I think I was referring to,
4 you know, in addition to this reduction.

5 Q. Thank you. Is it still your view that if
6 Washington adopts original protocol, that Washington
7 is launched in a radically different direction than
8 PacifiCorp's other jurisdictions? And I'm referring
9 to page eight, lines eight and nine of your rebuttal
10 testimony.

11 A. Well, that sentence doesn't refer
12 specifically to protocol, I don't think. I think, if
13 I understood your question, it was do I still believe
14 that adopting protocol would result in Washington
15 being launched in a radically different direction
16 than PacifiCorp's other jurisdictions.

17 Q. Well, let me try it this way. I read lines
18 eight and nine as referring to original protocol,
19 that if the Commission adopted original protocol,
20 that it would launch Washington in a radically
21 different direction than PacifiCorp's other
22 jurisdictions. If I'm reading that incorrectly, what
23 were you referring to there?

24 A. Give me a minute to read the paragraph
25 again, if you would.

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1 Q. Sure.

2 A. Well, I think you have to read it together
3 with the original sentence, the sentence immediately
4 preceding that. If the Commission is persuaded that
5 the consideration of the revised protocol cannot be
6 adequately accomplished without procedural delay, we
7 continue to believe that the original protocol
8 establishes a reasonable basis for establishing
9 Washington rates, and that it can easily be bridged
10 to the revised protocol in the Company's next case.

11 I mean, that's the point I think that we
12 were trying to make, that, you know, we have both the
13 revised protocol and the protocol in front of us.
14 The following sentence, I intended to mean that we
15 don't -- that to go off in a radically different
16 direction from there would not be productive, I
17 think, in trying to get a protocol established for
18 all six of our states.

19 Q. Does PacifiCorp plan to file another rate
20 case in Washington in 2005?

21 A. I'm not sure. It certainly has been our
22 plan to -- and our assessment that we would need to,
23 but I can't say absolutely for sure that we will. I
24 think that we probably will, but I'm not sure. It
25 depends on the power markets and it depends on, you

0212

1 know, a lot of different things, but I would expect
2 we probably will be filing one relatively shortly.

3 Q. In your rebuttal testimony on page five,
4 this is, again, Exhibit 32, page five, lines 13
5 through 14, you state that the Company concluded that
6 the Washington Commission would not welcome a
7 separate MSP filing of the sort we made in other
8 states. Is this correct?

9 A. Yes.

10 Q. And can you identify specifically what led
11 the Company to reach this conclusion?

12 A. It was really the outcome from the last
13 proceeding we had in front of this Commission, where
14 we had filed for, in the alternative, deferral of
15 excess power costs or a lifting of the rate plan.
16 And extensive discussions with Staff at the time, as
17 well as Staff's position in that case was that you
18 can't determine what an appropriate level of cost
19 recovery would be in a deferral, because there's no
20 allocation in place, and such an allocation would
21 need to be established in a rate proceeding.

22 And I don't have the order in front of me,
23 but I believe that language was express in the order.

24 Q. Well, I do have the order in front of me,
25 and I don't find that language to be express in the

0213

1 order, but based on the answer you just gave, perhaps
2 it would be more correct if line 13 stated that
3 Washington Commission Staff would not welcome a
4 separate MSP?

5 A. Well, I don't have the order in front of me,
6 but I believe -- my belief is that the order
7 expressly said that this should be resolved. There's
8 a paragraph that I read at some point that says that
9 this -- the Commission desired this to be resolved in
10 a rate case.

11 Q. Perhaps you're referring to the sentence of
12 the order that states, The absence of an allocation
13 methodology, however, is one reason, as we discuss
14 later, that a general rate case is desirable. Is
15 that what you recall?

16 A. I don't believe so. I'm recalling a
17 different paragraph, and again, I don't have it in
18 front of me, so --

19 Q. Okay. Also on page five, lines 17 through
20 19, you indicate that revised protocol results in an
21 improved allocation methodology, apparently as
22 comparison to original protocol. Do you still
23 believe that?

24 A. I do.

25 Q. Okay. Did the Company engage in extensive

0214

1 negotiations with Utah parties in an attempt to reach
2 settlement on MSP issues?

3 A. Yes.

4 Q. And isn't it true that, in fact, the Company
5 did reach a settlement with the Utah parties on MSP
6 issues?

7 A. Yes, that's true.

8 Q. Isn't it true that you went through a
9 similar MSP settlement process with the Oregon
10 parties?

11 A. Yes.

12 Q. And isn't it true that the Company reached a
13 settlement with all of the Oregon parties, with the
14 exception of ICNU?

15 A. Yes.

16 Q. Are you currently engaged in settlement
17 negotiations with the Wyoming parties on MSP issues?

18 A. We are.

19 Q. Did you engage in a similar settlement
20 process with the Washington parties with regard to
21 MSP issues?

22 A. The MSP issue has been part of this rate
23 case, and we have certainly had discussions with
24 various of the parties on trying to reach resolution.
25 We haven't been able to reach resolution in this

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1 case. And again, I don't think it is critical that
2 we reach resolution at exactly the same time. The
3 timing and the posture of this case made it virtually
4 impossible to get there, because this case was moving
5 along before the revised protocol really came
6 together, which was late June, just a couple of
7 months ago, so you know, the Washington -- we have
8 not had the opportunity yet to engage in those
9 negotiations, in particular because it's been an
10 issue in this case. My expectation is we will engage
11 in those forthwith once we get out of this case.

12 Q. Isn't it true that the Utah parties and the
13 Oregon parties were, in effect, able to extract
14 additional benefits from the Company with these side
15 negotiations on MSP that resulted in these individual
16 state stipulations?

17 A. I mean, I would not agree with the sentence
18 as you stated it, or the question as you stated it.
19 I think that there unquestionably have been various
20 considerations afforded to the parties in the
21 different states to meet their individual needs. For
22 example, we have a provision in the Utah stipulation
23 which caps not rates, but caps the difference between
24 methodologies for a temporary period, because Utah is
25 stepping up to considerably more costs as a result of

0216

1 this new methodology, in large part because they're
2 stepping up to their load growth.

3 So there are differences and we -- you know,
4 I think that Washington could very well have specific
5 considerations that they would like to have taken
6 into account and we will sit down and talk about
7 those.

8 Q. Does the stipulation that's before the
9 Commission currently reflect any unique
10 Washington-only considerations with regard to MSP?

11 A. Not that I know of, but that's probably a
12 better question for Ms. Kelly.

13 Q. Would you agree, subject to check, that
14 PacifiCorp filed the revised protocol in Oregon and
15 in Utah on May 21, 2004?

16 A. Again, probably a better question for Ms.
17 Kelly. I believe the answer is we filed a version of
18 the revised protocol at that point, but I don't
19 believe that the final version of that was nailed
20 down until -- I believe it was June 21st.

21 Q. Okay. Would you also agree that the Company
22 filed the revised protocol in this proceeding
23 approximately two months later, on July 28, 2004,
24 with the rebuttal testimony?

25 A. I mean, I'm not sure of the dates, but that

0217

1 may be. I don't know.

2 Q. But you do recall that the revised protocol
3 was filed with the Company's rebuttal testimony?

4 A. It was. That was our next opportunity to
5 file.

6 Q. Okay. Why did the Company include revised
7 protocol in its rebuttal testimony when previously
8 the Company stated it would not file the revised
9 protocol unless all parties agreed to allowing that
10 to occur?

11 A. Can you give me a reference to that
12 agreement?

13 Q. Yes.

14 JUDGE MOSS: What are you handing up?

15 MS. DAVISON: This is Exhibit 87, which was
16 admitted.

17 THE WITNESS: Well, I would not agree with
18 how you characterized this data request. First of
19 all, it's not an agreement; it's a statement of our
20 willingness to file it if and when -- well, let me
21 characterize the data request. First point the data
22 request makes is that there does not appear to be a
23 procedural opportunity to file that. This data
24 request was submitted prior to the filing of, I
25 believe, the Staff case. This was done on our direct

0218

1 case.

2 The reason we filed it, to get to the
3 substance of your question, was because the revised
4 protocol had been raised in the cases of the parties.
5 And we, as I say in my testimony, I believe, and
6 others have said, for purposes of clarification, we
7 filed the revised protocol. We did not specifically
8 advocate for the revised protocol, but since it had
9 been raised and there were many references to it
10 within the record, we felt it was important to
11 complete the record by filing it.

12 Now, we did not advocate specifically in our
13 testimony to adopt the revised protocol, but we did
14 file it in order to complete the record.

15 Q. Isn't it true that by filing -- by waiting
16 to file the revised protocol with your rebuttal
17 testimony, that it did not afford the parties the
18 opportunity to examine and to respond to the revised
19 protocol based on the schedule in this case?

20 A. Could you restate that? I'm sorry. I was
21 thinking ahead. I'm listening.

22 Q. Okay. Isn't it true that by the Company
23 waiting to file revised protocol in its rebuttal
24 case, that it did not afford the parties in this rate
25 case the opportunity to examine and respond to

0219

1 revised protocol based on the schedule in this case?

2 A. We didn't wait to file it. The revised
3 protocol didn't exist when we filed our direct case
4 in December of 2003. The next opportunity to file it
5 was on rebuttal, and at the time your data request
6 was submitted and it was answered, which I believe
7 was June 16th, we still didn't have the revised
8 protocol nailed down with the other parties. So
9 there wasn't a revised protocol to file.

10 And you know, could we have filed it
11 earlier? I think we would have had a procedural
12 issue, because there was no provision in the schedule
13 to allow us to file supplemental direct testimony. I
14 Suppose we could have moved to file it, but it was
15 certainly not the intent of the Company to somehow
16 sandbag the proceedings, if that's what you're trying
17 to say.

18 Q. Well, I guess what I'm trying to get at is
19 that there was a deposition of Andrea Kelly, there
20 were data requests that came out, you did file a
21 version of revised protocol with your other states on
22 May 21st, 2004, but yet you did not attempt to file
23 revised protocol until a time in which the other
24 parties did not have an opportunity to respond to it.
25 So my question is why didn't -- if you intended to

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1 file revised protocol in rebuttal, why didn't you
2 seek to supplement the record or supplement your
3 direct testimony at a time in which the parties could
4 have reviewed and addressed revised protocol within
5 the balance of the proceedings?

6 A. Again, because the procedural order did not
7 provide for supplemental direct testimony and, you
8 know, it wasn't until -- I mean, this was a
9 fast-moving process with lots -- it was very dynamic
10 with lots of other things going on. And the process
11 did not allow for us to file it before then.

12 Q. Has the Company agreed to extend the
13 suspension period in this proceeding if the
14 Commission rejects the settlement agreement between
15 the Company and Staff?

16 A. The agreement -- the stipulation, I think,
17 speaks for itself. There is a provision in there
18 that -- I referred you to the provision of the
19 stipulation, but it does have a provision in there to
20 -- I don't have it in front of me, so I can't
21 characterize it exactly, I haven't looked at it
22 recently, but some extension is provided for.

23 Q. Is your agreement to extend the suspension
24 period in this case contingent upon the Company
25 receiving an interim rate increase at the end of the

0221

1 current suspension period?

2 MR. VAN NOSTRAND: Objection, Your Honor.

3 That calls for this witness to interpret the
4 settlement agreement, which speaks for itself on that
5 point.

6 JUDGE MOSS: Is Mr. Furman the witness for
7 the settlement for PacifiCorp?

8 MR. VAN NOSTRAND: No, he's not on the
9 panel, Your Honor.

10 JUDGE MOSS: All right. I think that
11 question is best left for the panel, in terms of your
12 trying to understand what the settlement means in
13 that connection.

14 MS. DAVISON: Well, actually, I was trying
15 to understand what commitment the Company made at the
16 pre-hearing conference, and my recollection was Mr.
17 Furman was here and was consulted with.

18 JUDGE MOSS: It wasn't counsel, though. It
19 was counsel who made that commitment on behalf of his
20 client, and we have the transcript of that. If we
21 need to refer to it we can. I don't think Mr.
22 Furman's interpretation of what was said that day
23 will help us.

24 Q. Okay. Is it still correct that it is the
25 Company's preference that Washington rates be

0222

1 established based on revised protocol?

2 A. Can you give me a reference to my testimony?

3 Q. Exhibit 32, page seven, lines five through
4 seven.

5 A. Well, of course it is. I mean, the revised
6 protocol is a methodology that we have been working
7 on with all of our states, and it is moving forward
8 with some of our other states. But we don't have the
9 Washington parties' agreement on that. And this, by
10 definition, this process has to be consensual and it
11 has to be collaborative. So it's our preference, but
12 that's not what the stipulation calls for. As I said
13 earlier, the stipulation involved compromises of many
14 different positions.

15 Q. Would the Company still support the
16 settlement if the Commission ordered the use of
17 revised protocol instead of original protocol to
18 establish the revenue requirement in this rate case?

19 A. I don't know.

20 Q. Do you know who would know?

21 A. No, I don't know, because it would depend on
22 the circumstances at the time. I guess if your
23 question is, all other things being equal, if the
24 Commission opted to do that -- I'm not going to
25 answer that question, because I don't know. I

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1 haven't had time to think about it and I'd have to
2 think about a number of different things. I don't
3 know.

4 Q. Okay. Is it correct that the settlement
5 agreement removes all RTO-related costs from the
6 Company's revenue requirement?

7 A. Yes.

8 Q. If the settlement agreement is not approved
9 by the Commission, does PacifiCorp agree with Staff
10 witness Buckley and ICNU witness Schoenbeck that
11 RTO-related costs should be removed from the
12 Company's revenue requirement?

13 A. Your question's premised on the stipulation
14 being rejected?

15 Q. Correct.

16 A. And we're back in a litigation mode?

17 Q. I think we're in a litigation mode today.

18 A. Good point. Everybody's in a litigation
19 mode, as opposed to -- is that correct?

20 Q. Right.

21 A. No, our position would be that those costs
22 are appropriate.

23 Q. Is it correct that PacifiCorp started
24 working on RTO-specific development efforts around
25 1999?

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1 A. This version of RTO, although I would argue
2 that this has been an ongoing circumstance going back
3 to Indigo and even some things prior to that, I think
4 there's been transmission restructuring, there have
5 been efforts to look at how we run the transmission
6 system or how we might do it differently going back
7 to the early '90s.

8 Q. Is there a functioning RTO in the Pacific
9 Northwest?

10 A. Decidedly not.

11 Q. And when do you believe that a Northwest RTO
12 could be operational?

13 A. I have no idea. In fact, I have -- I have
14 grave doubts as to whether it will become, in its
15 current form, operational, but these costs which we
16 incur I believe will be ongoing costs. I believe
17 that pretty strongly because, for one thing, we
18 continue to have pressure from the FERC to engage in
19 these kinds of discussions and, for the benefit of
20 our customers, we have to engage in those
21 discussions.

22 We have a tremendous exposure. This
23 Company, aside from -- and very different from the
24 other two investor-owned electric utilities in this
25 state -- has a tremendous exposure to how the

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1 transmission grid is operated, and we have an
2 obligation to our customers to make sure that we do
3 protect their interests in these discussions. So as
4 long as there's pressure to do that, I think these
5 costs are appropriate. I also think that there's a
6 need, whether it's RTO or it's regional planning or
7 it's finding ways to get transmission built in the
8 current, you know, FERC-induced regulatory
9 environment, I think we still need to continue to
10 work on this. There's not enough transmission,
11 Bonneville doesn't have the transmission -- the
12 borrowing authority to build all that's needed, and I
13 do think we have to keep looking at ways in which we
14 can fix this problem.

15 But whether it's -- RTO specifically
16 probably is a -- my guess is not in very good shape
17 right now.

18 Q. Can a Northwest RTO operate without the
19 participation of Bonneville Power Administration?

20 A. It depends on how you define Northwest. I
21 think, before the current RTO discussions began,
22 there were some discussion among the IOUs about some
23 formulation of a trans-co or an RTO that would not
24 have involved Bonneville.

25 From our standpoint, there are probably some

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1 other -- if you are looking at the Northwest as
2 including the power pool, that goes all the way to
3 Wyoming and involves Wyoming-Utah transmission, and
4 that's much more contiguous and doesn't have anything
5 to do with Bonneville.

6 You might do something there in terms of
7 regional cooperation or something approaching an RTO
8 or an ISO or a scheduling entity. But it is hard to
9 see how you do the Grid West or anything like that in
10 Washington and Oregon and Idaho without Bonneville.

11 Q. Has BPA agreed to form an RTO?

12 A. Hard to say. They certainly have put a lot
13 of resources and a lot of effort and they say a lot
14 of things publicly supporting the RTO, but I don't
15 think they have the support that they need to carry
16 it forward. That's just my personal view. They're
17 going through a process right now, I think, which
18 essentially will see whether they have the support,
19 and I know that the attorney general in this state
20 just filed comments today or yesterday quite critical
21 of the governance provisions in the existing Grid
22 West proposal, so I would say that while they
23 publicly support it, the support's pretty thin.

24 Q. Are you aware that FERC stated in its White
25 Paper, dated April 28th, 2003, and this is a White

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1 Paper dealing with RTOs and standard market design,
2 that FERC stated Bonneville's participation in RTO
3 West is essential for RTO West to succeed?

4 A. I wasn't aware of that, but I agree with the
5 statement.

6 Q. And would it surprise you that PacifiCorp's
7 CEO, Judy Johansen, recently stated at a conference
8 that she believed it would take a blackout like that
9 in New England, that New England experienced to occur
10 in the Pacific Northwest before FERC would actually
11 mandate a Northwest RTO?

12 A. I heard that she said that.

13 Q. Exhibit 32, your rebuttal testimony, at
14 pages 17 through 18, you state that disincentives
15 exist for the Company to participate in demand-side
16 management. Can you identify those disincentives?

17 A. I think I did in my testimony, which is that
18 the -- I'm trying to find it. I guess I didn't.
19 Sorry. Give me just a moment. I believe it's in the
20 testimony if you just give me a moment.

21 Q. Sure.

22 MR. VAN NOSTRAND: Refer to Ms. Johansen's
23 testimony.

24 THE WITNESS: That's what I'm looking
25 through, yeah. Do you have the page?

0228

1 MR. VAN NOSTRAND: It's six.

2 THE WITNESS: I was just about to turn to
3 that.

4 COMMISSIONER HEMSTAD: Where are we now?

5 MS. DAVISON: I don't know.

6 JUDGE MOSS: We're looking through Ms.
7 Johansen's testimony to see if we can find this. And
8 I'll just interject. We don't normally allow counsel
9 to assist the witness, but in this instance I think
10 it's helpful and certainly not substantive in nature,
11 but I just wanted to make that point.

12 THE WITNESS: And I was one page away from
13 getting there, so --

14 JUDGE MOSS: There you go. All right. So
15 where are we?

16 THE WITNESS: I'm at page six in Ms.
17 Johansen's testimony, where she discusses alternative
18 -- it was her testimony in which this was --

19 JUDGE MOSS: That would be Exhibit 21?

20 THE WITNESS: It would.

21 JUDGE MOSS: Page six?

22 THE WITNESS: Page six. And the essential
23 premise, which I don't want to dwell on, is the -- a
24 utility's recovery of its fixed cost is tied to its
25 revenue, and so one can theorize that conservation,

0229

1 which reduces revenue, causes the Company to
2 experience a risk that it won't recover its fixed
3 cost. And so the idea of this testimony and the
4 testimony of NRDC was to explore ways in which to
5 remove those disincentives.

6 Q. Does the Company have a system benefit
7 charge in place in Washington?

8 A. I believe so.

9 Q. And does the system benefit charge allow the
10 Company to recover its prudently-incurred investments
11 in demand-side management?

12 A. Yes.

13 Q. Does the system benefit charge have a hard
14 cap that prevents the Company from spending more than
15 its budget on DSM?

16 A. You're beyond my expertise.

17 Q. Would you agree, subject to check, that
18 PacifiCorp is currently recovering about \$6.5 million
19 from Washington ratepayers under Schedule 191, that
20 is, the system benefits charge tariff?

21 A. Subject to check.

22 Q. It is -- is it the position of the Company
23 that this number is insufficient for demand-side
24 management related activities?

25 A. I think the position of the Company is Mr.

0230

1 Cavanagh and NRDC have asked us to look at a
2 different mechanism, and I think the purpose of this
3 testimony is to say we're willing to look at a
4 different mechanism. It's not a specific indictment
5 of the system benefits charge or how it works, but
6 simply a request on his part that we look at
7 something different, and we're open to that.

8 Q. Are you aware that the Oregon decoupling
9 mechanism that was advocated by NRDC caused annual
10 price increases for Oregon customers for each year it
11 was in effect?

12 A. I am generally aware of that decoupling
13 mechanism, and I think I'm generally aware of how
14 that operated, and I believe you're probably right,
15 that there were increases associated with that.

16 Q. Did you review Exhibits 567 through 571,
17 which were identified as cross exhibits for you?

18 JUDGE MOSS: In this proceeding?

19 MS. DAVISON: Sorry. They're identified for
20 Mr. Braden, so --

21 THE WITNESS: So I get to skate?

22 Q. But I would still ask you if you did review
23 those exhibits, which are essentially the annual
24 staff reports from the Oregon Staff discussing the
25 decoupling mechanism and the annual rate changes?

0231

1 A. I did not.

2 Q. Does Oregon have a decoupling mechanism
3 currently in place?

4 A. Not for us, and I'm not aware of other
5 decoupling mechanisms. We did have one in the past.

6 Q. Was there any support by the Oregon parties
7 for PacifiCorp to continue its decoupling mechanism
8 in Oregon?

9 A. Depends on who you define as Oregon parties.
10 I think certainly if Mr. Cavanagh's a party, then,
11 yes, there is support. I think that I'm certainly --
12 I'm certainly aware that ICNU doesn't support
13 decoupling in Oregon, and -- but we're not
14 necessarily talking about decoupling in the form that
15 it was there. I think the issue that was raised here
16 was the desire to look at the fundamental economic
17 principle that there's a disincentive to invest in
18 conservation. It doesn't mean necessarily that we
19 don't invest in conservation, but there's an economic
20 disincentive.

21 So I mean, I'm aware this has not been
22 popular with ICNU or the Staff, but there's probably
23 a better witness to ask about the specific positions
24 of people and decoupling in Oregon.

25 Q. Are you aware of any different approaches

0232

1 that PacifiCorp has taken under the system benefits
2 charge, Schedule 191, with regard to demand-side
3 management because of these so-called economic
4 disincentives?

5 A. I'm sorry, aware of any -- repeat the
6 question, if you could.

7 Q. I'll try it a little more clearly. You
8 referred to economic disincentives that a decoupling
9 mechanism would be attempting to address; correct?

10 A. Correct.

11 Q. And are you aware of whether or not
12 PacifiCorp has not -- let's say have you not taken on
13 certain DSM activities under Schedule 191 because of
14 these economic disincentives?

15 A. It's hard to answer that question. I'm not
16 aware of a specific investment that was not made
17 because we didn't have an incentive, but I would say
18 that, without some regulatory mechanism to deal with
19 conservation, getting conservation projects approved
20 through our normal budgeting process becomes more
21 difficult. We don't have things like systems
22 benefits charge -- systems benefit charges in all of
23 our states, and we have been working with some of our
24 states on this exact issue, for example, Utah, where
25 we have created some pass-through mechanisms that do

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1 account for some of these disincentives.

2 I can't say that I can identify a specific
3 conservation investment that was not made, though, as
4 a result of this disincentive. I just think that
5 there is a dampening effect. I stand by the
6 testimony, I think there's a dampening effect on the
7 utility's enthusiasm for it.

8 Q. How does the decoupling mechanism work in
9 light of original or revised protocol? How are those
10 costs treated?

11 A. I don't know. You'll have to ask Ms. Kelly
12 that.

13 Q. You stated earlier that PacifiCorp needs
14 this rate increase. Is it your position that
15 PacifiCorp is in financial crisis?

16 A. No.

17 Q. Isn't it correct that PacifiCorp's earnings
18 have been improving over the last year?

19 A. Certainly our earnings in the last fiscal
20 year improved over the prior fiscal year and over the
21 year before that. Of course, they couldn't get much
22 worse than they were during the energy crisis, so I
23 think that process has been a recovery from the
24 energy crisis, and of course that looks at the
25 Company as a whole. And we're looking specifically

0234

1 at the Washington jurisdiction and what we're earning
2 in the Washington jurisdiction.

3 Q. Did Standard and Poor's, on August 18, 2004,
4 issue an improved ratings outlook for PacifiCorp and
5 Scottish Power?

6 A. I have heard that. I haven't reviewed the
7 document and I don't know the document to which
8 you're referring, but I have heard that there was a
9 new note out from Standard and Poor's that didn't
10 change our credit rating, but was viewed as positive.

11 Q. Did you have any involvement in the
12 five-year rate plan?

13 A. No.

14 Q. So you're not aware that the parties who
15 negotiated the five-year rate plan had 2004 and 2005
16 having no rate increases because of the merger credit
17 going away in 2004 and the Centralia credit going
18 away in 2005?

19 A. I'm aware that the rate plan provided for no
20 general rate increases in those time periods. I had
21 no -- I wasn't here at the time, so I was not aware
22 and am not aware that that was the rationale.

23 MS. DAVISON: Thank you. I don't have any
24 further questions, Your Honor.

25 JUDGE MOSS: We'll take a brief break.

0235

1 (Recess taken.)

2 JUDGE MOSS: Mr. Cromwell, go ahead.

3 MR. CROMWELL: Thank you, Your Honor.

4

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

6 BY MR. CROMWELL:

7 Q. Good afternoon, Mr. Furman. My name is
8 Robert Cromwell. I'm an Assistant Attorney General
9 with the Public Counsel Section. Are you prepared to
10 continue or would you like a break?

11 A. No, I'm happy to continue.

12 Q. Okay. I'd ask you to turn to your rebuttal
13 testimony, Exhibit 32, page five. And beginning at
14 the bottom of page five and continuing over to page
15 six, you have a brief description of the MSP process;
16 correct?

17 A. Yes.

18 Q. And therein you describe the differences, to
19 put it generally, between the Company's perspective
20 and that found in the Commission Staff and Public
21 Counsel witnesses' responsive testimony; correct?

22 A. I'm sorry, which line numbers are you
23 referring to?

24 Q. I'm looking at line 20 on page five, and
25 continuing over onto page six. I guess it's line

0236

1 four.

2 A. No, I wouldn't agree with that
3 characterization of the testimony. I think what the
4 testimony says is the MSP has been a highly iterative
5 process, there's been a lot of give and take, a lot
6 of new analyses and a lot of change, and as a result
7 it's in conflict with just, again, the posture and
8 the nature of this rate case, which is a rate case.
9 It's not a generic proceeding to look at allocation
10 methodologies.

11 Q. Would you look at page nine of the same
12 testimony, please, at lines eight through 10? Let me
13 know when you've had a chance to review that
14 statement.

15 A. Okay.

16 Q. Is it -- are you testifying here that the
17 Washington parties, including the Commission Staff,
18 have focused on a Washington-specific requirement or
19 outcome?

20 A. Well, that's my understanding. Again, I
21 didn't attend every meeting, but certainly in the
22 briefings that I received and just generally in my
23 involvement with the MSP process, my understanding is
24 that Washington has advocated a separate -- some form
25 of islanding or separation from the integrated

0237

1 system. And that's a -- that position has been in
2 fairly direct conflict with the other states, which
3 -- who want to maintain the integrated system and its
4 benefits.

5 Q. Can you tell us for the record who
6 represented the Company at those meetings?

7 A. Well, a variety of people.

8 Q. Can you give me the top three or four folks
9 who attended the most number of meetings?

10 A. Well, Andrea Kelly, Andy MacRitchie, Greg
11 Duvall, all of whom are in the room, me at times,
12 Christy Omohundro at times. A great number of
13 people.

14 Q. And do you know who attended those meetings
15 on behalf of the Washington State Commission Staff?

16 A. For the most part, in my experience and
17 also just from what I was told, I believe Lisa Steel
18 was a primary participant and spokesman for the
19 Commission Staff.

20 Q. You aware that Jim Lazar was placed under
21 contract with the Commission and also attended
22 meetings on the Washington State Commission Staff's
23 behalf?

24 A. I was not, I was not.

25 MR. CROMWELL: That's all I have for Mr.

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1 Furman. Thank you, Your Honor.

2 JUDGE MOSS: Thank you. Do we have any
3 questions from the bench?

4

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

6 BY CHAIRWOMAN SHOWALTER:

7 Q. I have just a few follow-up questions. If
8 you could turn to your rebuttal testimony, Exhibit
9 32, page seven. And on line 22 and 23, you say that,
10 in essence, the revised protocol conforms to
11 Washington -- Utah, Oregon and Wyoming. Is that the
12 gist of it?

13 A. Yes.

14 Q. And my question is how formal is the policy
15 of Utah, Oregon and Wyoming? My understanding, from
16 listening to this discussion, is that the revised
17 protocol has been proposed in those other states as
18 being discussed in those other states, but has not
19 yet been adopted. Is that approximately correct?

20 A. Yes, that's absolutely correct. In fact, it
21 has not been adopted in any of those states yet.
22 There have been stipulations filed. If you'd like, I
23 can run through the status in each of the states, but
24 basically, we have stipulations with all or most
25 parties in those states and, in the case of Oregon

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1 and Utah, we're awaiting orders. In the case of
2 Wyoming, a stipulation was filed today that
3 recommends the revised protocol.

4 But we don't have orders and we don't know
5 how these commissions are going to react. So I need
6 to -- I need to make that clear, that this is -- we
7 don't know that the revised protocol is going to be
8 what they adopt.

9 Q. And you mention that, in Oregon, ICNU is not
10 a participant in or has not agreed to the stipulation
11 there. Are there any other parties in the other
12 states that are contesting the stipulations that have
13 been proposed in those states?

14 A. No, Wyoming and Utah were both all-party
15 stipulations.

16 Q. Regarding Exhibit 87, this was something
17 that was handed up to us, and Ms. Davison asked you a
18 few questions about it. And my question is was the
19 revised protocol available outside this proceeding to
20 parties in this proceeding prior to the date it was
21 filed in this proceeding?

22 A. I believe that it was, but I think Ms. Kelly
23 can answer that question definitively, but I believe
24 that it was, because I think all the parties in this
25 proceeding were participants in MSP.

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1 Q. I'll ask you the next question, and maybe
2 that will be deferred, but did those parties conduct
3 discovery in other state proceedings or any kind of
4 informal inquiry in other forums than this one?

5 A. I don't know.

6 Q. My last question is about the RTO expenses.
7 If they are removed from the revenue requirement,
8 does that mean that the shareholders of the Company
9 are picking up those expenses, or is there some other
10 possibility, such as a FERC tariff or a FERC
11 jurisdictional way to recover them?

12 A. Well, as I said before, I think if we wait
13 for a FERC tariff for an RTO, I think we're going to
14 be waiting a long time. The stipulation provides
15 that the Company can request a deferral of those
16 costs and an accounting order and subsequently seek
17 recovery, reserves to the Staff certain rights with
18 regard to that issue, but, you know, if you were to
19 -- well, it's an interesting question, because I
20 suppose one thing to do would be to petition FERC,
21 you know, for a tariff rider on our transmission
22 tariff.

23 I haven't thought about that, so I'm sort of
24 shooting from the hip here, but to seek some sort of
25 recovery through the FERC. I mean, one problem I see

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1 with that is that we only recover about 10 percent of
2 our transmission revenue requirement from third
3 parties, so I guess it would be -- and we don't have
4 a situation necessarily where we charge our -- I
5 guess we do. I was going to say where we charge
6 ourselves for the tariff. It's probably worth
7 looking into.

8 I don't have a good answer to it. But right
9 now, the removal of it means shareholders are at risk
10 unless and until this Commission would grant a
11 deferral order and then grant recovery, which of
12 course is not decided or recommended to be decided in
13 this decision. That would be for a later date.

14 CHAIRWOMAN SHOWALTER: All right. I have no
15 further questions. Thank you.

16 THE WITNESS: Thank you.

17

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

19 BY COMMISSIONER HEMSTAD:

20 Q. Mr. Furman, you've adopted Ms. Johansen's
21 testimony, as I understand it?

22 A. Yes.

23 Q. I'm looking at page nine of her testimony,
24 which is Exhibit 476.

25 A. Yes.

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1 Q. No, Exhibit 21, excuse me. And her
2 statement at, beginning at line four, when it says,
3 If the protocol is not adopted, however, the Company
4 and its customers will suffer as each state continues
5 to act independently in determining its share of the
6 Company's operating cost. In the long run, this
7 creates the potential for a regulatory race to the
8 bottom, whereby each state has an incentive to shift
9 its fair share of cost to the other states. I
10 realize -- end quote. I realize that the reference
11 is in the long run. Do you have any evidence that
12 that has occurred in Washington?

13 A. It's not specifically aimed at any one
14 state, Commissioner.

15 Q. Okay. But my question is specifically with
16 respect to Washington. And do you have any evidence
17 that this Commission or Staff has attempted to shift
18 our costs to other states?

19 A. I don't -- Commissioner, I don't think it's
20 an issue of commissions expressly shifting costs to
21 other states; it's when there is the absence of an
22 agreement among the commissions, by nature of that
23 situation, commissions have, I think, the ability and
24 perhaps some pressure to go their own way. And when
25 they go their own way, that leads inevitably to, I

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1 think, a recovery hole, and that is the situation we
2 have right now, where -- and in fairness to the state
3 of Washington, we haven't been in for a general rate
4 case in a very long time. It's one of the reasons
5 we're in, to have this issue put before it and so on.

6 I can't say that I have any specific
7 evidence or that I was even basing that on any
8 actions of the Washington Commission. It is -- but
9 we have certainly seen that among the states where we
10 have had active rate cases and we have seen
11 commissions adopting different methodologies when
12 they don't feel bound by a common methodology.

13 Q. Well, since the Pacific and Utah Power
14 merger, what has happened to rates in the state of
15 Utah?

16 A. Rates in Utah have gone down.

17 Q. And what has happened to rates in the state
18 of Washington or -- and/or Oregon?

19 A. For a long time, they were down, as well.
20 There was a merger credit in this proceeding where
21 rates were reduced at the outset for a period of five
22 years, and we never came in for a rate increase until
23 2001. So in fact, for a 12-year period, rates were
24 lower after the merger, and my -- roughly, they are
25 currently at about the same level as they were at the

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1 time of the merger, but --

2 Q. But so, since the merger, rates on the West
3 side have, after initially going down, have been
4 stable or have now risen, but they have gone down
5 measurably in Utah?

6 A. Have gone down somewhat in Utah, although
7 they've also come back up. The last couple rate
8 cases we've had in Utah have been fairly sizable.

9 Q. And that's where your growth is occurring?

10 A. It is, and -- it is, and I would suggest
11 that most of our rate increases and most of our need
12 for revenue is also going to Utah at this point.

13 Q. I have to openly admit I don't have any
14 grasp of what the formulation of the protocol or the
15 revised protocol would do. Can you give me sort of a
16 global statement of how that would deal with the
17 issue of where your growth is and where the cost
18 would be allocated?

19 A. You will get a much more intelligent
20 response to that question, I will tell you, from Ms.
21 Kelly, but I'll take a shot at a very high level
22 describing how protocols will work. And it is based
23 on what we call a dynamic methodology that takes into
24 account peak loads, a number of factors, there are a
25 number factors within the protocol that you're

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1 familiar with and you would expect to see, energy
2 usage, peak usage, those sorts of things.

3 The practical outcome -- the practical
4 effect, and the MSP process involved many, many, many
5 studies that looked at this issue, what happens under
6 different scenarios of load growth and where do the
7 costs go. There isn't a simple silver bullet, here's
8 the algorithm and here's how it works, but the
9 outcome, as all those studies demonstrated, is when
10 loads grow in a given jurisdiction, the cost
11 responsibility shifts in a way that you would expect
12 to be sensible.

13 Now, there are differences between the
14 protocol and the revised protocol, primarily
15 differences that were driven by this load growth
16 issue, so I think one of the issues, one of the
17 things that we can say about the differences between
18 those two protocols is it was the continued pressure
19 of this issue around load growth that I think drove
20 some of those changes.

21 Again, you'll get a much more intelligent
22 answer from Ms. Kelly and a much more informed one,
23 and I'd encourage you to ask her, as well.

24 COMMISSIONER HEMSTAD: That's all I have.
25 Thank you.

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E X A M I N A T I O N

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BY COMMISSIONER OSHIE:

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Q. Mr. Furman, you testified, I believe in the cross-examination of Ms. Davison, that Utah had negotiated some -- I guess a cap on the delta between the methodologies as a condition of their support for -- this would be apparently Utah Staff -- for the support of the revised protocol.

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How would that work, or do you understand it well enough to be able to answer that question, or should I ask Ms. Kelly?

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A. I would suggest you ask Ms. Kelly, but I will tell you you did describe it reasonably accurately. It is the delta between the methodologies. It's not a cap on rates at all and, you know, there are a number of aspects to it that limit its effect. It's only for a few years, and it's in place because, and this is an important point, because the impact of the this new protocol in Utah is by far the greatest, because they have load growth. So it is an issue of the far greater impact on Utah.

24

25

It's also a function of the fact that that load growth is driving costs up that are not

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1 allocated. Our distribution costs -- we are
2 investing -- we've invested \$250 million to \$300
3 million just in the distribution system in Utah in
4 the last couple of years, and it's -- that also is
5 having a fairly dramatic impact on our need to seek
6 rate increases over there. So the posture of the
7 Utah parties at this point is they very much want us
8 to make those investments, because if we don't, the
9 lights go out. And we've literally had some of those
10 situations in Utah in the last few years where,
11 because we haven't kept up with the necessary
12 investment, they've -- we've had reliability issues.

13 So there's a strong support for that and a
14 strong support for acquisition of additional power
15 supplies, as well, but it is having a pretty dramatic
16 impact on rates.

17 Q. I believe you testified, as well, that
18 Oregon had conditioned its -- or Oregon Staff had
19 conditioned its approval of revised protocol on
20 certain changes. Do you have a -- can you at least
21 touch upon what those conditions were or what the
22 condition was?

23 A. If you don't mind, I'm going to defer to Ms.
24 Kelly on that one.

25 Q. Maybe as, just generally, of the states that

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1 have -- or the state staff that have recommended
2 approval of the revised protocol, have all
3 recommendations been based on, or at least in part,
4 on some condition to the revised or changes to the
5 revised protocol in some manner?

6 A. I don't think so, because I believe, and
7 again, Ms. Kelly's going to be a better witness to
8 answer this, but I believe Wyoming has effectively
9 not made any changes in the revised protocol. They
10 were happy with the way it came out. The big issues
11 were really between the West side states, who took
12 different approaches. I mean, Washington took an
13 islanding approach, Oregon very much supported the
14 integrated system, but both states were very
15 concerned with the impact of load growth, rightly so.

16 So you know, the changes that were made
17 between protocol and revised protocol had to do with,
18 you know, things like allocation of certain of the
19 hydro facilities, allocation of QFs and some things
20 like that, which had an impact on how well cost
21 followed load growth, but it -- there has been a
22 difference between the various states and every --
23 the states are different. Their situations are
24 different in terms of other things that are going on
25 there, rates going up rather rapidly in Utah, Oregon

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1 not seeing any growth and being actually in a very
2 flat economic condition and having surprisingly low
3 growth, low amounts of growth in the current period.
4 So you know, there have been differences.

5 Wyoming, on the other hand, I think was
6 simply happy that there was an agreement, it looked
7 fair to them, and the parties have signed on.

8 COMMISSIONER OSHIE: All right. Thank you.

9 THE WITNESS: Thank you.

10 CHAIRWOMAN SHOWALTER: I just have a couple
11 follow-up questions.

12

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

14 BY CHAIRWOMAN SHOWALTER:

15 Q. In the other three states, Wyoming, Utah,
16 Oregon, passing over any sort of temporary
17 conditions, if you look at what is in front of those
18 states and how the protocol or the revised protocol
19 would work, say, five years hence, are they all the
20 same or are there variations in their permanent
21 implementation?

22 A. My exposure has been at a fairly high level
23 to these various scenarios, but I will tell you --
24 well, from what I've seen of the studies that have
25 been run, there are different impacts on different

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1 states, depending on what you assume about load
2 growth and what you assume about market prices and
3 the like. They -- none of the scenarios are linear.
4 So in other words, you have, you know, some
5 jurisdictions paying more for a time, but based on
6 what your assumption is about growth and economic
7 growth and so on, things turning around over time.

8 Q. I didn't really mean the scenarios.

9 A. Okay.

10 Q. I meant the operating rule for how the
11 allocation works. Are all three states going to be
12 operating under the same rule five years from now?

13 A. I believe that's the case. Again, I just,
14 subject to -- Ms. Kelly may need to correct me, but I
15 believe if it's not exactly the same, it's very
16 close.

17 Q. And also, I forgot to ask, if we approve the
18 settlement, on what timetable do you see this
19 Commission taking up the allocation issue? Would
20 you, for example, foresee kicking off an MSP-only
21 proceeding rather promptly?

22 A. I think that's going -- that's going to be a
23 function of where we get with the parties in the near
24 -- I mean, I think the most immediate thing is to sit
25 down with Staff and the other parties and figure out

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1 where we are. And there's going to be, I'm sure,
2 some time that's going to need to be dedicated to
3 that.

4 At the end of that period, it sort of
5 depends on what the Company and the parties can agree
6 to, and you know, we would take direction from this
7 Commission in terms of how they would prefer to
8 proceed. If you would prefer to proceed in a rate
9 proceeding, I think it's likely that we will probably
10 have one available relatively soon. If a generic
11 proceeding would be more helpful, a rule-making or
12 something else, I think we're very flexible in how we
13 approach that, but I think we would like to know that
14 we have the other parties -- that we have an
15 agreement on how we would process that issue among
16 the parties. We'd hope to have that, anyway.

17 CHAIRWOMAN SHOWALTER: Thank you.

18

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

20 BY JUDGE MOSS:

21 Q. Something of a follow-on to that line, Mr.
22 Furman, just want to be sure we have a clear record
23 on the subject. You testified earlier respecting the
24 differences between the revised protocol and what
25 we've been referring to as the original protocol, and

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1 this was specifically with reference to your rebuttal
2 testimony at page seven, lines 13 through 15 or so.
3 There you testified that all other things being
4 equal, if the revised protocol were used versus the
5 original protocol, that would mean \$2.5 million
6 revenue requirement reduction for Washington.

7 And you testified today that, I think, that
8 some portion of that is perhaps implicitly, at least,
9 recognized by the trade-offs that were made in
10 achieving settlement, but that there's not an
11 explicit recognition in the settlement.

12 A. If I said that, I didn't mean to say that.
13 I think what I was attempting to clarify was that --
14 I mean, the settlement is the settlement. There were
15 lots of things that went into that, and there's
16 nothing in the settlement that expressly calls out
17 this item, and so, by definition, I would say it's
18 whatever was in the minds of the parties as they were
19 negotiating the settlement.

20 I think the point I was trying -- I think
21 this is what you're referring to, Judge, is the \$2.5
22 million number is calculated based on our case at the
23 time of the rebuttal case. So in other words, it was
24 the \$25 million and change which constituted our
25 case. The stipulation had a number of adjustments in

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1 it that were expressed, and because of those
2 adjustments, the number wouldn't be 2.5. It would
3 still be a positive number, it just would not be as
4 big.

5 Q. So in other words, if we left everything in
6 the settlement constant but used the revised protocol
7 instead of the original protocol as part of the
8 settlement, then that would result in some reduction
9 in revenue requirement relative to the 15, or not?
10 Or that is not something that's even clear?

11 A. I don't think it's clear.

12 JUDGE MOSS: Okay. All right. That's all I
13 had. All right. I think we are perhaps ready for
14 any redirect, or did the bench's questions prompt any
15 follow-up?

16 MR. CROMWELL: Yes.

17 MS. DAVISON: Yes.

18 JUDGE MOSS: All right. Then I suppose we
19 should have that before we have any redirect.

20

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

22 BY MS. DAVISON:

23 Q. I just have one quick question for you, Mr.
24 Furman. In response to Commissioner Hemstad, you
25 stated that the Company hasn't been in for a long

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1 time, referring to -- for rate increases. And I just
2 wanted to ask you, isn't it correct that the Company
3 did see a seven percent rate increase as the result
4 of the rate plan?

5 A. Yeah, that's right, and I guess what I was
6 referring to was -- and again, I wasn't involved in
7 regulation at the time, but my understanding is that
8 that was a revenue requirement settlement and there
9 was not any specific findings on things like rate
10 base and that sort of thing. So you're right. There
11 was a rate increase in the interim.

12 Q. Actually, I had two. I'm sorry. One other
13 -- this is truly my last question. Also, in response
14 to Commissioner Hemstad, you stated that Utah rates
15 are lower than they were from the time of the
16 original merger, but they were increasing. And isn't
17 it correct that on August 4th, 2004, when PacifiCorp
18 filed its rate case in Utah, that you issued a press
19 release that stated, quote, Still, even with this
20 increase, rates on average will be among the lowest
21 in the nation and lower than what Utah customers were
22 paying in 1985. Is that a correct statement?

23 A. It is a correct statement. We have some of
24 the lowest rates in the nation. EEI just issued a
25 report that says, you know, Washington rates -- that

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1 we have the lowest residential rate in Washington at
2 this point. So I mean, I'm not -- to clarify my
3 testimony, I guess rates did go down, and they're on
4 the rise. I don't know if they're -- I can't -- I
5 would stand by the press release, because obviously
6 that was checked, but rates in Utah are certainly --
7 Utah received a tremendous benefit from the merger,
8 there's no doubt about that, and I don't deny that.
9 They did. Other jurisdictions did, as well, though.

10 MS. DAVISON: Thank you.

11 JUDGE MOSS: Mr. Cromwell, you also have a
12 question?

13

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

15 BY MR. CROMWELL:

16 Q. Yes. Following up on the same discussion
17 you had with Commissioner Hemstad regarding the
18 Company not being in for a very long time, could you
19 tell us what you meant by that statement?

20 A. Well, the last general rate case that we had
21 prior to the 2000 -- I think 2001 case it was, was in
22 1986, and there was a merger proceeding in '89 and
23 '90, in which a rate credit, a merger credit was
24 granted which lowered rates. And other than that,
25 other than that, between then and I believe it was

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1 2001, there was not a rate proceeding.

2 Q. Would you accept, subject to check, that the
3 last rate case filing by this Company was actually in
4 1999, not 2001?

5 A. Yeah, that could be.

6 Q. UE-991832?

7 A. And the filing was probably in 1999; I'm not
8 sure when the order was. It was somewhere in that
9 2000 -- the order was 2000, 2001, I think.

10 MR. CROMWELL: That's all. Thank you, Your
11 Honor.

12 JUDGE MOSS: Thank you. Any redirect?

13 MR. VAN NOSTRAND: Just a couple questions,
14 Your Honor.

15

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

17 BY MR. VAN NOSTRAND:

18 Q. Mr. Furman, in response to questions from
19 Ms. Davison, you referred to an EEI ranking?

20 A. Yes.

21 Q. Is that an exhibit in this proceeding?

22 A. I believe it's a cross-examination exhibit,
23 Exhibit 509, I think it is.

24 Q. What does that exhibit show with respect to
25 PacifiCorp Washington's rank among the investor-owned

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1 utilities in the country?

2 A. Well, with respect to average rates, we
3 would be, one, two, three, four, five, six -- 15th
4 lowest in the nation. With regard to residential
5 rates, we would be the lowest in the nation, among
6 investor-owned utilities.

7 Q. When was that survey done?

8 A. It says winter of 2004. I'm not sure when
9 the -- let's see. Oh, it does say. It uses rates in
10 effect January 1, 2004, and average revenue data for
11 the year preceding January 1, 2004, so --

12 MR. VAN NOSTRAND: Thank you. While I'm in
13 the neighborhood, I'd like to move the admission of
14 Exhibit 509.

15 MR. CROMWELL: Your Honor, I'm going to
16 object. I took a look at this. If Mr. Van Nostrand
17 could set some foundation for the document or, I
18 apologize, have Mr. Furman establish the foundation
19 for the document.

20 JUDGE MOSS: Well, it looks to be -- I'm
21 just looking at the description, but it's a
22 publication by the Edison Electric Institute in
23 Winter 2004, typical bills and average rates. Is
24 that what it is?

25 MR. VAN NOSTRAND: Yes.

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1 MR. CROMWELL: That's what I have in front
2 of me, as well, Your Honor.

3 JUDGE MOSS: Well, unless we have somebody
4 from the Edison Electric Institute, it seems we're
5 not going to have the sort of foundation questions
6 that would normally occur, but it's an industry
7 publication. We normally don't require foundation
8 for such things.

9 MR. CROMWELL: Well, I guess my question
10 then goes -- if you turn to page three.

11 JUDGE MOSS: Well, you're going to have to
12 give me a minute to get the exhibit. It's with Mr.
13 Lazar's exhibits?

14 MR. CROMWELL: Correct.

15 JUDGE MOSS: Some of us may not have. All
16 right. This is Exhibit 509.

17 MR. CROMWELL: That's what I have, Your
18 Honor.

19 JUDGE MOSS: And you want me to look at page
20 three?

21 MR. CROMWELL: Correct. At the top of the
22 page, in the center, there's ranking of total retail
23 average rates. The next line, 12 months ending
24 12/31/04, but '04 has been scratched out and '03
25 written in.

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1 So I guess the question of foundation I have
2 regarding this exhibit for Mr. Van Nostrand is what
3 is the nature of this document and what does it
4 purport to represent and does it accurately represent
5 what it purports to represent and how was it
6 obtained.

7 JUDGE MOSS: What we have is an authenticity
8 question, and I suppose it would be appropriate,
9 since there is obviously a hand-done edit on here,
10 Mr. Van Nostrand, I'm going to just put the question
11 to you. Do you know what's going on with this
12 document?

13 MR. VAN NOSTRAND: What I know from the
14 document is what it states on the cover page, that
15 it's Edison Electric Institute ranking from winter
16 2004, and that was the document that Mr. Furman
17 referred to in response to Ms. Davison's questions.
18 I thought, as long as we were referring to that
19 survey and PacifiCorp Washington being ranked number
20 one in that survey, with the lowest rates in the
21 country, we ought to have it in the record.

22 JUDGE MOSS: Well, I think maybe we better
23 ask you to maybe spend some time this evening
24 checking into -- making sure this is the right
25 document, since it does have this handwritten edit.

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1 And let's make sure of what it is. It's been
2 identified with Mr. Lazar, and we'll have him up
3 later in the proceeding, and so we can take care of
4 it at that point in time. It'll give you a chance to
5 check on that and take care of Mr. Cromwell's
6 concern, which is -- I think needs to be answered.

7 MR. CROMWELL: Your Honor, if I may, I have
8 one other issue for Mr. Van Nostrand to make inquiry
9 of. The original entry of 12 months ending 12/31/04
10 would appear to be a logical impossibility, given
11 today's date, so --

12 JUDGE MOSS: I agree.

13 MR. CROMWELL: I mean, to be fair, I mean,
14 in all fairness, if this is the Edison report, what
15 it probably is is a run of Q1 through Q3 or
16 something, some date, whatever that date is.

17 JUDGE MOSS: We'll get it clarified, we'll
18 get it clarified and find out, so that's -- I'm not
19 concerned. We'll take it up later. All right. Does
20 that conclude --

21 MR. VAN NOSTRAND: Yes, Your Honor.

22 JUDGE MOSS: Anything further of this
23 witness? Ms. Davison.

24 MS. DAVISON: Thank you, Your Honor.

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

2 BY MS. DAVISON:

3 Q. I just have one question. Mr. Furman, you
4 talked about the ranking of Washington PacifiCorp
5 rates just recently in light of this EEI survey.
6 Have you done a ranking of your rates if you are, in
7 fact, given the eight percent rate increase that
8 you're asking for in this case?

9 A. I have in -- my testimony contains a chart.
10 It's not comparable to the EEI study, but it looks at
11 the major utilities in the state of Washington, and
12 --

13 Q. No, my question is have you done a
14 comparable evaluation of the EEI ranking, if you are
15 in fact given an eight percent increase on top of the
16 rate plan seven percent increase?

17 A. We haven't, but we would still be among the
18 lowest in the country. If you just apply the rate
19 increase, you know, on an average basis to those
20 rates, we're still going to be very, very, very low.

21 JUDGE MOSS: Okay.

22 MS. DAVISON: Thank you.

23 JUDGE MOSS: All right. Let's get Mr.
24 Furman off the stand. And thank you very much for
25 your testimony in this proceeding, Mr. Furman.

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1 THE WITNESS: Thank you.

2 JUDGE MOSS: And we have Mr. Duvall, I
3 believe, next. Mr. Furman, could you please resume
4 your seat for a moment? It seems that -- another
5 follow-up question from the bench.

6 THE WITNESS: Ah, from the bench, sure.

7

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

9 BY CHAIRWOMAN SHOWALTER:

10 Q. I had understood you to say that total
11 rates, you were 11th or 15th in the country, and
12 residential lowest.

13 A. Right.

14 Q. But maybe I'm not reading things right, but
15 it appears to me that on page three, which is total
16 retail average rates, you are the lowest, so --

17 A. In Idaho.

18 CHAIRWOMAN SHOWALTER: Idaho, that's the
19 problem. Thank you. Thank you.

20 JUDGE MOSS: All right. Thank you, again,
21 Mr. Furman.

22 THE WITNESS: Thank you.

23 JUDGE MOSS: And we'll want to take our
24 afternoon recess now. All right. Let's ask Mr.
25 Duvall to take the stand, we'll swear him in, and

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1 then we'll take our afternoon recess.

2 Whereupon,

3 GREGORY N. DUVALL,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6 JUDGE MOSS: Thank you. Please be seated.

7 And we'll be in recess until 3:30.

8 (Recess taken.)

9 JUDGE MOSS: Let's be back on the record.

10 Mr. Galloway, your witness.

11 MR. GALLOWAY: Thank you, Your Honor.

12

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

14 BY MR. GALLOWAY:

15 Q. Mr. Duvall, please state your full name.

16 A. Gregory N. Duvall.

17 Q. What is your position with PacifiCorp?

18 A. I'm Managing Director of Planning and Major
19 Projects.

20 Q. Has pre-filed direct testimony, which has
21 been previously marked as Exhibit 101, been
22 previously filed in this proceeding on your behalf?

23 A. Yes, it has.

24 Q. And has pre-filed rebuttal testimony, which
25 has previously been marked as Exhibit 110, been filed

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1 on your behalf?

2 A. Yes, it has.

3 Q. Accompanying your direct testimony are
4 Exhibits 102 through 108, 109; is that correct?

5 A. That's correct.

6 Q. And Exhibit 111 accompanies your rebuttal
7 testimony?

8 A. Yes, it does.

9 Q. If I were to ask you the questions that are
10 set forth in your pre-filed direct and rebuttal
11 testimony, would your answers be the same as set
12 forth therein?

13 A. Yes, they would be.

14 Q. And are Exhibits 102 through 108 and 109 and
15 111 true and correct, to the best of your knowledge?

16 A. Yes, they are.

17 MR. GALLOWAY: Your Honor, I would move the
18 admission of Exhibits 101 through 111, and tender Mr.
19 Duvall for cross-examination.

20 JUDGE MOSS: Thank you, Mr. Galloway.
21 Hearing no objections, those exhibits will be
22 admitted as marked. Ms. Davison has previously let
23 me know off the record, I believe, that she is not
24 going to have cross for Mr. Duvall, so that brings us
25 to you, Mr. Cromwell. Oh, and I should mention that

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1 the ICNU cross-examination exhibits shown in the
2 exhibit list previously were admitted pursuant to
3 stipulation. So Mr. Cromwell.

4 MR. CROMWELL: Thank you, Your Honor.

5

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

7 BY MR. CROMWELL:

8 Q. Good afternoon, Mr. Duvall. My name is
9 Robert Cromwell, I'm with Public Counsel Section of
10 the Attorney General's Office, and I have a few
11 questions for you.

12 Have you had a chance to review what's been
13 marked as Exhibit 124? This is the Company's
14 response to Public Counsel Data Request 1.46?

15 A. Yes, I have.

16 Q. And were you the individual that prepared
17 this response?

18 A. Yes, I was.

19 MR. CROMWELL: Your Honor, I would move the
20 admission of 124.

21 MR. GALLOWAY: We have no objection.

22 JUDGE MOSS: It will be admitted.

23 Q. Mr. Duvall, I'd like you to now refer to
24 your rebuttal testimony, which has been now admitted
25 as Exhibit 110, I believe. If you would turn to page

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1 six and look at lines 17 through 20?

2 A. Okay.

3 Q. And therein you describe a number of studies
4 or runs that were done in, I believe, Utah and
5 Oregon; is that correct?

6 A. We did runs that looked at incremental load
7 growth in Utah and other runs that we looked at
8 incremental load growth in Oregon.

9 Q. And were you the person doing those runs?

10 A. They were done under my direction.

11 Q. Okay. And about how many runs did you do in
12 -- for the Oregon and Utah parties?

13 A. As I recall, after we filed the protocol in
14 some of the other states in September, based on a
15 data request that we received, we ran -- I think it
16 was 41 additional studies to analyze the load growth
17 issue.

18 Q. And has the Company similarly run additional
19 studies that reflect the assumptions contained in the
20 proposed settlement?

21 A. The proposed settlement in this case?

22 Q. Correct.

23 A. No.

24 Q. So then, the exhibits that were attached to
25 the settlement and submitted do not reflect any data

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1 produced as a result of running the types of studies
2 you describe in your testimony?

3 A. No, the types of studies that I describe in
4 my testimony are forward-looking studies. They're
5 not the studies that I think Mr. Weston would have
6 run on the test period data. Mine are looking at
7 2005 forward for a 14-year period.

8 Q. Okay. Just so I'm clear, then, no study of
9 the type described in your testimony was run based
10 upon the results or the contents of the proposed
11 settlement?

12 A. That's correct.

13 MR. CROMWELL: Thank you. I have no further
14 questions for Mr. Duvall, Your Honor.

15 JUDGE MOSS: Any questions from the bench
16 for Mr. Duvall?

17 COMMISSIONER OSHIE: No questions.

18 JUDGE MOSS: Well, Mr. Duvall -- well, I
19 suppose I should ask if there's any redirect? Mr.
20 Galloway.

21 MR. GALLOWAY: There is. Do any of the --

22 JUDGE MOSS: I think you've taken everyone
23 by surprise.

24

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

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1 BY MR. GALLOWAY:

2 Q. Do any of the studies described on page six
3 of your rebuttal -- or of your rebuttal testimony
4 deal with a single-year's rate impacts?

5 A. I think they're all multi-year studies.

6 MR. GALLOWAY: I have nothing further.

7 JUDGE MOSS: Thank you. Well, I hope it
8 wasn't too anti-climactic for you, Mr. Duvall. We
9 appreciate your testimony, and you may step down.

10 MR. GALLOWAY: The Company's next witness at
11 this point is Mr. Taylor. I'd ask that he come
12 forward.

13 JUDGE MOSS: Thank you. Just stay on your
14 feet, Mr. Taylor. I'll get you sworn in.

15 DAVID L. TAYLOR,
16 having been first duly sworn, was called as a witness
17 herein and was examined and testified as follows:

18 JUDGE MOSS: Thank you. Please be seated.

19 MR. CROMWELL: Your Honor, this need not be
20 on the record, but I have no questions for Mr.
21 Taylor, if that's of convenience to you.

22 JUDGE MOSS: All right. Did anybody else
23 designate cross for Mr. Taylor? All right.

24 UNIDENTIFIED SPEAKER: Redirect?

25 JUDGE MOSS: Well, we don't want to get too

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1 far ahead of ourselves here.

2 THE WITNESS: Can I at least state my name?

3 JUDGE MOSS: Let us have Mr. Galloway put

4 Mr. Taylor's testimony and exhibits on, and then

5 we'll at least give him a chance to say his name.

6

7 DIRECT EXAMINATION

8 BY MR. GALLOWAY:

9 Q. Please state your full name, Mr. Taylor.

10 A. My name is David L. Taylor.

11 Q. How are you employed with PacifiCorp?

12 A. I'm a Director in the Regulation Department.

13 Q. Has pre-filed direct testimony, previously

14 marked as Exhibit 291, been filed on your behalf in

15 these proceedings?

16 A. Yes.

17 Q. And has pre-filed rebuttal testimony,

18 previously marked as Exhibit 303, been previously

19 filed in your behalf in these proceedings?

20 A. Yes.

21 Q. And accompanying your direct testimony, are

22 there previously-marked Exhibits 292 through 302?

23 A. Yes.

24 Q. And accompanying your rebuttal testimony,

25 previously-marked exhibits 304 through 311?

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1 A. Yes.

2 Q. If I were to ask you the questions that are
3 set forth in your pre-filed direct and rebuttal
4 testimony, would your answers be the same as set
5 forth therein?

6 A. They would.

7 Q. And are Exhibits 292 through 302 and 304
8 through 311 true and correct, to the best of your
9 knowledge?

10 A. They are.

11 Q. Is there anything else you'd like to tell
12 the Commission at this time?

13 A. It's been happy to be here.

14 JUDGE MOSS: You want to move the admission?

15 MR. GALLOWAY: I would. At this time, Your
16 Honor, like to move the admission of Exhibits 291
17 through 311.

18 JUDGE MOSS: And there being no objection,
19 those will be admitted as marked, and I'll just note
20 for the record we previously admitted 312 through
21 316, which were ICNU cross-examination exhibits.
22 Cross-examination has been waived. Are there
23 questions from the bench? There being no questions
24 from the bench, Mr. Taylor, we appreciate you being
25 here to present your pre-filed testimony and exhibits

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1 today, and you may step down.

2 Let's see. This brings us to our next
3 witness, who is --

4 MR. HALL: Mr. Anderberg.

5 JUDGE MOSS: Would that be Mr. Tallman? No.
6 Who? That's just what's on my list. I don't really
7 care who it is.

8 MR. VAN NOSTRAND: There was no cross for
9 Mr. Tallman.

10 JUDGE MOSS: Oh, no cross. Really?

11 MR. VAN NOSTRAND: And no cross for Mr.
12 Mumm.

13 MR. HALL: Your Honor, I think Mr. Anderberg
14 is our next witness.

15 JUDGE MOSS: Really? What about Wilson and
16 Davis?

17 MR. VAN NOSTRAND: No cross for either of
18 those.

19 JUDGE MOSS: Okay. Well, you all are
20 bringing me up to date on some stuff you probably
21 previously brought me up to date on, but I didn't
22 make notes, so --

23 MR. CROMWELL: Your Honor, one thing. I did
24 have an exhibit marked for Mr. Davis. Although I
25 have no cross for him on that exhibit, I would seek

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1 its admission.

2 JUDGE MOSS: All right. Have you talked to
3 counsel about it?

4 MR. CROMWELL: I had previously spoken with
5 Mr. Van Nostrand.

6 JUDGE MOSS: Any objection?

7 MR. VAN NOSTRAND: No objection, Your Honor.

8 JUDGE MOSS: What's the number?

9 MR. CROMWELL: I believe it is 384.

10 JUDGE MOSS: Well, you better be sure.

11 MR. CROMWELL: I hesitate to make such --

12 JUDGE MOSS: I better be sure.

13 MR. CROMWELL: I believe it is 384, Your
14 Honor.

15 JUDGE MOSS: All right. 384 is PacifiCorp
16 response to Public Counsel Data Request 70,
17 identified for Mr. Davis. It will be admitted. And
18 I'll tell you what. Perhaps Mr. Van Nostrand and Mr.
19 Hall, if I could have your attention momentarily, it
20 seems to me that, with respect to these witnesses we
21 just discussed, that is to say Mr. Tallman, Mr. Mumm,
22 Mr. Wilson and Mr. Davis, as to whom there is no
23 cross, can we have their testimony and exhibits by
24 stipulation? Is there any reason not to? Do we need
25 to put them on the stand?

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1 MR. VAN NOSTRAND: We would hope to do it by
2 stipulation, Your Honor.

3 JUDGE MOSS: Unless the bench has identified
4 questions for those witnesses, I would say let's just
5 do that, and then we'll disappoint them. They won't
6 get to say their names on the stand, but we'll save
7 time. All right. So Mr. Anderberg, then.

8 MR. VAN NOSTRAND: Your Honor, I think I
9 noted in an informal correspondence to you and the
10 parties Richard Woolley and Larry Martin were not
11 available today.

12 JUDGE MOSS: Correct.

13 MR. VAN NOSTRAND: We're taking them out of
14 order probably next week.

15 JUDGE MOSS: Yes.

16 MR. VAN NOSTRAND: So Mr. Anderberg is next.

17 JUDGE MOSS: Yeah, I did have those two
18 noted. It's just a weakness in my notes that I
19 didn't have these other things down. But we've got
20 Mr. Anderberg, and then Mr. Weston, is he available
21 today if we get that far?

22 MR. VAN NOSTRAND: Yes.

23 JUDGE MOSS: Okay. Very good. Well, I
24 appreciate you having everyone here. All right, Mr.
25 Anderberg, if you will rise and raise your right

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1 hand.

2 Whereupon,

3 KARL D. ANDERBERG,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6 JUDGE MOSS: Thank you. Please be seated.

7

8 DIRECT EXAMINATION

9 BY MR. HALL:

10 Q. Mr. Anderberg, would you please state your
11 full name for the record, please?

12 A. Karl D. Anderberg.

13 Q. And what is your position at the Company?

14 A. I'm a Manager in the Regulation Department.

15 Q. And has pre-filed testimony been filed on
16 your behalf that has been pre-marked as Exhibit 391,
17 KDA-1T?

18 A. Yes.

19 Q. Mr. Anderberg, is this your first time
20 testifying?

21 A. It is.

22 Q. Are you a little bit nervous?

23 A. Just a little bit.

24 MR. HALL: Your Honor, I'd like to move
25 Exhibit 391 into the record.

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1 JUDGE MOSS: Okay. If there's no objection,
2 we'll admit that.

3 Q. Mr. Anderberg, is there -- are there any
4 corrections that you would like to make to your
5 testimony at this time?

6 A. There is one. On page five, line 20, where
7 there's seven percent, that should be restated to be
8 six percent.

9 Q. Is there anything else?

10 A. No, that's all.

11 Q. If I were to -- other than what you've just
12 mentioned, if I were to go through your testimony and
13 ask you all those questions today, would your answers
14 still be the same?

15 A. Yes.

16 COMMISSIONER HEMSTAD: I'm sorry, I didn't
17 find on page five.

18 JUDGE MOSS: I think it's actually line 21.
19 There's an entry for seven percent. It should be six
20 percent.

21 Q. Is that correct, Mr. Anderberg?

22 A. Yeah, mine says line 20, but I'm sure that's
23 the same number.

24 MR. HALL: That's all, Your Honor.

25 JUDGE MOSS: Okay. Let's see now. We have

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1 moved so quickly here that I have to -- yes, I have
2 ICNU and Public Counsel both indicated the desire to
3 cross this witness, so we'll follow our same order
4 there, and who's going to do this?

5 MR. SANGER: I will, Your Honor.

6 JUDGE MOSS: Mr. Sanger, go ahead.

7

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

9 BY MR. SANGER:

10 Q. Good afternoon, Mr. Anderberg. In your
11 rebuttal testimony, which is Exhibit 391, page eight,
12 line 11, to page 10, line nine, is it correct that
13 you recommend against imputing revenue for the
14 Western Area Power Administration, otherwise known as
15 WAPA, wheeling contract?

16 A. That's correct.

17 Q. Is the WAPA wheeling contract an 80-year
18 fixed rate contract that does not include any price
19 escalations?

20 A. That's not entirely true. There are some
21 price escalations in the contract.

22 Q. Would you characterize those price
23 escalations as significant?

24 A. No.

25 Q. Of your rebuttal testimony again, at page

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1 eight, lines 20 through 21, your rebuttal testimony
2 suggests that other state regulatory agencies have
3 taken exception, you can use those words in quotes,
4 take an exception to the WAPA wheeling contract. Do
5 you agree with Mr. Falkenberg's direct testimony that
6 both the Utah Commission and the Oregon Commission
7 have ordered PacifiCorp to impute additional revenues
8 for the WAPA wheeling contract?

9 A. Yes, that is true, at times.

10 Q. And do you agree that in the Company's 2003
11 Utah rate proceeding, the Company's rates reflect a
12 revenue imputation for the WAPA wheeling contract?

13 A. In Utah's 2003 rate proceedings? I'm not
14 sure.

15 MR. SANGER: I have no further questions.

16

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

18 BY JUDGE MOSS:

19 Q. I want to be sure I'm clear. Referring back
20 to the question that Mr. Sanger asked you on page
21 eight, my recollection of this matter is that these
22 contracts -- this contract dates back to the early
23 1960s?

24 A. Yes.

25 Q. And your testimony there is that no

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1 regulator took exception during the first 21 years?

2 A. That's correct.

3 Q. Okay. And so when you responded that Utah
4 and Oregon had imputed some revenues, was that after
5 that 21-year period?

6 A. Yes, that is when it first began.

7 JUDGE MOSS: Okay. I just wanted to be
8 clear on that. Okay, thanks. Mr. Cromwell.

9 MR. CROMWELL: Thank you, Your Honor.

10

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

12 BY MR. CROMWELL:

13 Q. Good afternoon, Mr. Anderberg. Do you have
14 before you what has been marked for identification as
15 Exhibits 394 and 395?

16 A. Let's see. Is 394 -- I don't have these
17 marked, but is that response to Public Counsel Data
18 Request 133?

19 Q. It is, yes, and 395 has been marked the
20 Company's response to Public Counsel Data Request
21 165.

22 A. Yes.

23 Q. And do you recognize those as the Company's
24 responses regarding the Company's relationship with
25 Cowlitz P.U.D.?

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1 A. Yes.

2 MR. CROMWELL: Your Honor, I would move the
3 admission of 394 and 395.

4 JUDGE MOSS: Hearing no objection, those
5 will be admitted.

6 Q. Mr. Anderberg, I would ask you to refer to
7 your rebuttal testimony of what has been admitted as
8 Exhibit 391, and I believe beginning on page 11, you
9 begin discussing the failure at Swift No. 1, and that
10 continues over onto page 12?

11 A. Yes.

12 Q. And on -- beginning on line four of page 12,
13 there's a sentence that begins, To the extent. Would
14 you read that sentence into the record, please?

15 A. My copy of the testimony must be somewhat
16 different. Oh, here it is. Okay. To the extent
17 that the Company receives reimbursement from Cowlitz
18 for damages incurred in the test period, the Company
19 agrees that rate base should be reduced by the amount
20 of the reimbursement.

21 Q. And referring your attention now to what has
22 been admitted as Exhibit 395, the response you
23 prepared on this issue, it appears that the Company
24 acknowledges that it did, in fact, receive -- let me
25 pause for a moment.

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1 I assume that the figure there is not
2 confidential, since the response was not produced
3 confidentially; is that correct?

4 A. It actually refers to a confidential
5 document, but it is true that it wasn't -- it wasn't
6 provided as a confidential response.

7 Q. Does the Company have any sensitivity over
8 the publication of that figure?

9 A. I'm not sure.

10 Q. Well, let's just say this. In the first
11 line of the Company's response to Data Request 165,
12 what has been admitted as Exhibit 395, there is a
13 six-digit number?

14 A. Yes.

15 Q. It appears, from this data response, that
16 the Company is acknowledging that it received that
17 amount in reimbursement from Cowlitz P.U.D. If it
18 knew -- excuse me. If the Company knew that it had
19 received this amount in reimbursement, then, at the
20 time you were preparing your testimony, can you
21 explain to me why this wasn't acknowledged in your
22 testimony and proposed as an adjustment?

23 A. At the time that I prepared my testimony, I
24 was not aware of this particular amount. However, in
25 preparing the response to the data request, it came

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1 to my knowledge, and so I acknowledged it at that
2 point. This was, you know, pursuant to the
3 settlement agreement in late June.

4 Q. Well, looking again at Exhibit 395, your
5 statement here is that this was partial
6 reimbursement; correct?

7 A. Yes. Oh, go ahead.

8 Q. I'm sorry. And you reference this amount in
9 question as being made pursuant to a contract
10 amendment that was provided in response to another
11 data request, PC DR 163. Isn't it a fact that the
12 amended contract does not attribute this amount to
13 the noted temporary Coffey Dam?

14 A. I would have to -- that would be subject to
15 check.

16 Q. Would you accept that subject to check?

17 A. Yes.

18 Q. I have the data response available, but it's
19 somewhat voluminous and I thought we could avoid it.
20 Isn't it true -- or let me restate this. Would you
21 accept, subject to check, that this amount in
22 question represents payment for all claims, including
23 the avoidance of any future lawsuits by PacificCorp to
24 settle this matter?

25 A. Yes.

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1 MR. CROMWELL: Thank you. That's all.

2 JUDGE MOSS: Does the bench have any
3 questions? Yeah, we covered ICNU. Does the bench
4 have any questions for Mr. Anderberg? Any redirect?

5 MR. HALL: Yes, Your Honor. Just a few
6 questions.

7

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

9 BY MR. HALL:

10 Q. Mr. Anderberg, do you know the date of the
11 settlement?

12 A. I believe it was June 17th.

13 Q. Of which year?

14 A. Of 2004.

15 Q. Would that be outside the test year?

16 A. Yes.

17 Q. Was the existence of the settlement known
18 before the Company and Staff entered into a
19 settlement?

20 A. I don't believe so. Would you restate the
21 question?

22 Q. I'm sorry, I probably wasn't clear enough.
23 Was information about the settlement known to parties
24 before -- was it known to Staff before Staff entered
25 into the settlement with the Company?

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1 A. Yes, it was.

2 Q. So this is not new news?

3 A. This is not. Exactly.

4 MR. HALL: Okay. No further questions.

5 JUDGE MOSS: Okay. Assuming that prompted
6 nothing further?

7

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

9 BY MR. CROMWELL:

10 Q. Mr. Anderberg, if I may, how are you aware
11 that the Commission Staff was aware of this
12 settlement or its terms?

13 A. Well, they had access to this data response.
14 This is what I'm referring to.

15 MR. CROMWELL: Okay. Thank you.

16 JUDGE MOSS: All right. Thank you. All
17 right.

18 MR. HALL: Your Honor, just one more
19 question.

20

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

22 BY MR. HALL:

23 Q. In approximate terms, what is the effect of
24 this adjustment on the Washington case?

25 A. It would be, since it is a rate base

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1 reduction, it would be approximately \$10,000 in
2 revenue requirement or less.

3 MR. HALL: Thank you.

4 JUDGE MOSS: Mr. Anderberg, we thank you for
5 being here, presenting your testimony, and you may
6 step down. And let's have Mr. Weston.

7 Whereupon,

8 JOSEPH TED WESTON,

9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11 JUDGE MOSS: Thank you. Please be seated.

12

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

14 BY MR. VAN NOSTRAND:

15 Q. Could you state your name for the record,
16 please?

17 A. Joseph Ted Weston.

18 Q. And what's your position with the Company,
19 Mr. Weston?

20 A. I'm a Manager in the Regulation Department.

21 Q. And did you have occasion to file direct
22 testimony in this case, which has been marked as 201,
23 and rebuttal testimony in this case, which has been
24 marked as Exhibit 204?

25 A. Yes, I did.

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1 Q. And accompanying your direct testimony,
2 Exhibits 202 and 203, and accompanying your rebuttal
3 testimony, 205, 206 and 207. Were those exhibits
4 prepared under your direction and supervision?

5 A. That's correct.

6 CHAIRWOMAN SHOWALTER: Mr. Van Nostrand, is
7 your microphone on?

8 Q. Yes, it is. I'll get closer. Do you have
9 any additions or corrections to make to your
10 testimony or exhibits, Mr. Weston?

11 A. I do. I have three corrections that I'd
12 like to make to my rebuttal testimony. The first
13 correction is on page 10 of my rebuttal testimony,
14 starting on line 10. This should read, Mr.
15 Schoenbeck has included \$1,080,748 in his total
16 amount of \$1,289,745. That has no relation to
17 transactional cost.

18 The second line item, titled Capital
19 Structure, contains similar errors.

20 The third line item, Non-affiliate Audits,
21 only accounts for \$64,068 of the 202,671 identified
22 by Mr. Schoenbeck, which was already removed by the
23 Company.

24 MR. CROMWELL: Your Honor, I apologize for
25 interrupting the witness, but he's lost me.

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1 CHAIRWOMAN SHOWALTER: He's lost us.

2 JUDGE MOSS: Yeah, you're going way too
3 fast.

4 CHAIRWOMAN SHOWALTER: Since there's -- I
5 don't know if all of this involves corrections or if
6 it's just word by word, but if it's a lot, we should
7 just maybe get a piece of paper. If it's just
8 certain words, maybe we can just focus on these
9 certain words.

10 Q. You only have these two corrections;
11 correct?

12 A. Yeah.

13 JUDGE MOSS: Let's just do it slowly. All
14 right. The first correction is at line 10.

15 THE WITNESS: Line 10. And the amount,
16 rather than --

17 COMMISSIONER HEMSTAD: And what page?

18 JUDGE MOSS: Oh, I'm sorry. Let's stop for
19 a minute.

20 THE WITNESS: Page 10.

21 JUDGE MOSS: Page 10 of the rebuttal
22 testimony, which is Exhibit 204.

23 THE WITNESS: Starting on line 10. It says,
24 Mr. Schoenbeck has included 349,000. That should be
25 replaced with \$1,080,748.

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1 And the sentence -- let's see. The sentence
2 on line 12, that starts with -- the second line item
3 titled Capital Structure contains similar errors.

4 MR. CROMWELL: Your Honor, I apologize for
5 interrupting. I had another dollar figure from Mr.
6 Weston's first statement. Is the second dollar
7 figure in line 10 also changed?

8 THE WITNESS: Well, I just -- originally, I
9 rounded up.

10 MR. CROMWELL: Oh.

11 THE WITNESS: The actual amount is
12 \$1,289,745, so --

13 JUDGE MOSS: Okay. Then at line 13, you
14 begin with the sentence, The third line item,
15 Non-affiliate Audits?

16 THE WITNESS: That's correct.

17 JUDGE MOSS: And the correction reads as
18 follows.

19 THE WITNESS: Only accounts for \$64,068 of
20 the 202,671 identified by Mr. Schoenbeck, which is --

21 CHAIRWOMAN SHOWALTER: Are you striking the
22 words "was already removed by the Company?"

23 THE WITNESS: Which should be followed,
24 "which was already removed by the Company." So the
25 64,000, the Company has removed that amount in its

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1 filed direct testimony.

2 MR. CROMWELL: May we get those numbers
3 again, Your Honor?

4 COMMISSIONER HEMSTAD: Again, what we need
5 is the precise word changes you wish to make to the
6 sentence, and read slowly, so we can write it in.

7 THE WITNESS: Okay.

8 COMMISSIONER HEMSTAD: We can worry about
9 its content later.

10 CHAIRWOMAN SHOWALTER: Only give us -- for
11 example, I think what you mean is, on line 13, after
12 the word "audits, comma" insert, and then you have
13 some words. If you could say them slowly. Or maybe
14 no comma.

15 THE WITNESS: "Audits," then insert "only
16 accounts for" --

17 COMMISSIONER HEMSTAD: Slowly.

18 THE WITNESS: Sorry. "Only accounts for
19 \$64,068 of the \$202,671 identified by Mr.
20 Schoenbeck." And then it continues on to read,
21 "which is already removed by the Company."

22 Starting on line 14, where it says the
23 fourth line item, Aquila Professional Fees, we should
24 strike "is related to the hedge cost addressed in Mr.
25 Widmer's rebuttal testimony." That should be

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1 replaced with "is related to gas storage facility
2 purchased by PPM," followed by "all of these costs
3 were removed by the Company."

4 My second correction is on page --

5 JUDGE MOSS: Let's wait.

6 THE WITNESS: Okay. Do you all have that?

7 CHAIRWOMAN SHOWALTER: We have new respect
8 for our court reporter.

9 JUDGE MOSS: All right. Then let's look --

10 MR. CROMWELL: Your Honor, I don't.

11 CHAIRWOMAN SHOWALTER: You don't?

12 MR. CROMWELL: What came after gas storage
13 facility?

14 JUDGE MOSS: Okay. Let me make sure I've
15 got it. The fourth line item, "Aquila professional
16 fees is related to gas storage facility purchased by
17 PPM."

18 MR. CROMWELL: Thank you.

19 JUDGE MOSS: "All of these costs were
20 removed by the Company." Now we go to page eight.

21 THE WITNESS: Okay. Thank you.

22 COMMISSIONER HEMSTAD: Page eight?

23 THE WITNESS: Page 18.

24 JUDGE MOSS: Eighteen, thank you. I
25 misheard.

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1 THE WITNESS: Page 18, line 20. The word
2 "Colorado" should be replaced by "Arizona."

3 And the final correction to my testimony is
4 on page 25, line eight. The number of \$6,359,199
5 should be replaced by \$8,213,569. And those are all
6 of my corrections.

7 Q. As corrected, if I asked you the questions
8 set forth in Exhibit 201 and 204 today, would your
9 answers be the same?

10 A. They would.

11 Q. And your accompanying exhibits, 202, 203,
12 205 through 207 are true and correct, to the best of
13 your knowledge?

14 A. They are.

15 MR. VAN NOSTRAND: Your Honor, I move the
16 admission of Exhibits 201 through 207.

17 MS. DAVISON: Your Honor, I object to the
18 admission of the corrections to Mr. Weston's
19 testimony at this time. These are more than
20 typographical errors; they are substantive changes,
21 and I need to have Mr. Schoenbeck review those before
22 we can say that they're okay.

23 I would refer you to the rule on substantive
24 corrections and the Commission's --

25 JUDGE MOSS: We don't need to go through the

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1 rule on substantive corrections. We can ask to have
2 Mr. Weston back at a later point in time if you have
3 some specific questions on these specific points. I
4 see Mr. Schoenbeck is not with us.

5 MS. DAVISON: That's right. And we were not
6 aware of these corrections prior to just now.

7 JUDGE MOSS: Okay. So I think let's do it
8 that way instead of spending a lot of time on this.

9 MS. DAVISON: Okay.

10 JUDGE MOSS: Okay. I do, before I admit
11 these exhibits, and I don't think there's any
12 objection, just in terms of corrections, I would ask
13 you, Mr. Weston, to turn to your direct testimony,
14 Exhibit 201, and turn to page two, and ask you to
15 look at line six, and ask you who is Mr. Peach? He's
16 not testifying in this proceeding, to my knowledge.

17 THE WITNESS: That's correct. That should
18 read Mr. Hadaway.

19 MR. VAN NOSTRAND: I believe it's Mr.
20 Furman.

21 THE WITNESS: Was it Furman?

22 JUDGE MOSS: Mr. Furman, is that what it
23 should read, Furman?

24 MR. VAN NOSTRAND: Yes, Furman.

25 JUDGE MOSS: All right. Is that similarly

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1 the case with respect to page four, line 12?

2 MR. VAN NOSTRAND: Yes, Your Honor.

3 JUDGE MOSS: Okay. I'm -- you know, I
4 didn't go through systematically, but those two
5 caught my eye, so if there are other references to
6 Mr. Peach, those would be to Mr. Furman in this
7 proceeding, so we can follow it in our record. Okay.

8 And just from memory, and I can't recall,
9 one of your witnesses has a reference to ICNU's
10 witness Mr. Frankenberg, and I assume that would be
11 Mr. Falkenberg. I'm sorry I lost the specific
12 reference, because I certainly was going to make it a
13 point of humor, but -- all right. Well --

14 MR. VAN NOSTRAND: Sounds like something Mr.
15 Widmer would do.

16 JUDGE MOSS: I think it may have been.

17 MR. VAN NOSTRAND: Since he's not here, we
18 can say that.

19 JUDGE MOSS: Allright. Well, thank you,
20 Mr. Weston, for your corrections. And you've moved
21 the admission and I've heard no objection, so
22 Exhibits 201 through 207 will be admitted as marked.

23 Now, ICNU's exhibits, I presume, have been
24 admitted as part of the stipulation, and then you
25 were not having any cross today?

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

2 JUDGE MOSS: All right. And we've already
3 discussed any possible follow-up. The other party
4 besides Public Counsel to indicate or identify some
5 cross exhibits here was Mr. Eberdt, for the Energy
6 Project, sent in six exhibits. I don't know if the
7 Company and Mr. Eberdt had any discussions or not.
8 Mr. Eberdt's not here. But does the Company have any
9 objection to the entry of these responses of data
10 requests that Mr. Eberdt wanted to put in?

11 MR. VAN NOSTRAND: We'll have to take a look
12 at those. They were not received by my office in
13 time to actually --

14 JUDGE MOSS: Why don't we reserve on that.
15 I'll just ask you to take the initiative, if you
16 don't mind, since you're here. Give him a call, see
17 if there's a problem.

18 All right. Very well. Then I believe that
19 brings us up to you, Mr. Cromwell.

20 MR. CROMWELL: Your Honor, I would like to
21 move the admission of Exhibits 228 through 242.

22 JUDGE MOSS: All right. With the -- perhaps
23 with -- Exhibit 240, I think, we don't actually need,
24 do we?

25 MR. CROMWELL: Correct.

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1 JUDGE MOSS: You and I discussed informally
2 that Exhibits 239 and 240 really are the same
3 document, so I'm just striking 240 off the list, and
4 that will be reflected in the final. So it will be
5 228 through 239, and then 241 and 242.

6 MR. CROMWELL: Correct.

7 JUDGE MOSS: All right. And is there any
8 objection to those?

9 MR. VAN NOSTRAND: No, Your Honor.

10 JUDGE MOSS: Being no objection, those will
11 be admitted. Did you have questions?

12 MR. CROMWELL: With that, I will waive cross
13 of Mr. Weston.

14 JUDGE MOSS: Does the bench have questions
15 for Mr. Weston? All right. Well, at least you got
16 to put your corrections in, Mr. Weston.

17 MR. VAN NOSTRAND: Your Honor, Mr. Weston
18 would be the person who would be able to answer the
19 question that you posed to us about the \$46.3 million
20 figure associated with Trail Mountain.

21 JUDGE MOSS: Great. Then let's have that on
22 redirect, or on supplemental direct or whatever. You
23 put the question to him.

24

25 S U P P L E M E N T A L D I R E C T

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

2 BY MR. VAN NOSTRAND:

3 Q. Mr. Weston, were you in the room this
4 morning when Mr. Schoenbeck referred to the \$46.3
5 million figure associated with the deferred
6 accounting for the Trail Mountain Mine closure?

7 A. Yes, I was.

8 Q. And do you recall Mr. Schoenbeck expressed
9 some uncertainty as to whether or not that figure
10 included the entire cost or just the Company's 85
11 percent share of the mine? Do you recall that?

12 A. Yes, I do.

13 Q. Do you address this issue in your direct
14 testimony or the accompanying exhibits?

15 A. Yes, I have. I'd just like to refer to page
16 14 of my direct testimony. Excuse me. Page 14
17 starts my discussion on Trail Mountain, but if we
18 turn to page 16, starting on line 13, it states that,
19 referring to adjustment 5.3 that was in my exhibit,
20 that the Company had removed the joint owner's share
21 of that 46.3 million. And if you refer to my exhibit
22 JT-3 on page 5.3, you can see that the 14 and a half
23 percent share of the joint owners has not been
24 included in the Company's application.

25 JUDGE MOSS: Okay.

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1 THE WITNESS: I'd also like to -- I'm not
2 sure if there was a question on what that application
3 number was. I have a copy of that. It is -- was in
4 Docket Number UE-031657, and in that, that was the
5 Company's accounting application for this Commission
6 to approve the deferral, and in that application we
7 specified that we would like the prudence and
8 recovery of that treatment to be determined in the
9 next general rate proceeding, which is what this is.

10 And the Company -- I have filed direct
11 testimony and rebuttal testimony on Trail Mountain
12 and its prudence to be included and recovered in this
13 proceeding.

14 JUDGE MOSS: Okay. Thank you. All right.
15 If there's nothing further for this witness?

16 MR. CROMWELL: If I may follow-up, Your
17 Honor.

18

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

20 BY MR. CROMWELL:

21 Q. Mr. Weston, are you responsible for the
22 Company's filing in UE-031657, the Trail Mountain
23 application?

24 A. I was not.

25 Q. Okay. Is there someone in the room who was

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1 or is?

2 A. Probably not.

3 Q. I'm just trying to figure out who best to
4 ask certain questions about.

5 JUDGE MOSS: Maybe you can consult counsel
6 off the record.

7 MR. CROMWELL: I'll do so. Thank you.

8 JUDGE MOSS: Okay. Mr. Weston -- nothing
9 further, Mr. Van Nostrand?

10 MR. VAN NOSTRAND: No, Your Honor.

11 JUDGE MOSS: When I see you lean forward, I
12 never know how to read that body language. Mr.
13 Weston, we appreciate you being here and giving your
14 testimony, and you may step down.

15 THE WITNESS: Thank you.

16 JUDGE MOSS: I believe that completes your
17 Company witnesses, doesn't it? Well, except for the
18 ones we've designated for subsequent days, including
19 Woolley and Martin.

20 MR. VAN NOSTRAND: And Ms. Kelly and Mr.
21 Widmer appear as part of the panel. I think we
22 discussed having cross-examination of their
23 individual testimony once they get off the panel.

24 JUDGE MOSS: Right. So it seems to me that
25 the appropriate thing to do, since we have scheduled

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1 other witnesses for specific days, is to quit for the
2 day. And is there any further business? All right.
3 Then let's be in recess until tomorrow morning at
4 9:30. See you all then.

5 (Proceedings adjourned at 4:18 p.m.)

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