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 1 BEFORE THE WASHINGTON STATE

 UTILITIES AND TRANSPORTATION COMMISSION

 2 WASHINGTON UTILITIES AND )

 TRANSPORTATION COMMISSION, ) DOCKET NO. UE-090205

 3 )

 Complainant, ) Volume IV

 4 ) Pages 67 to 140

 vs. )

 5 )

 PACIFICORP D/B/A PACIFIC )

 6 POWER & LIGHT COMPANY, )

 )

 7 Respondent. )

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 A hearing in the above matter was held on

 9

 October 29, 2009, from 1:35 p.m to 3:00 p.m., at 1300

10

 South Evergreen Park Drive Southwest, Room 206, Olympia,

11

 Washington, before Administrative Law Judge PATRICIA

12

 CLARK and CHAIRMAN JEFFREY D. GOLTZ and Commissioner

13

 PATRICK J. OSHIE and Commissioner PHILIP B. JONES.

14

 The parties were present as follows:

15

 THE COMMISSION, by DONALD T. TROTTER, Senior

16 Assistant Attorney General, and JENNIFER

 CAMERON-RULKOWSKI, Assistant Attorney General, 1400

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25 Joan E. Kinn, CCR, RPR

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 6 241-8160, E-Mail ias@dvclaw.com.

 7 THE ENERGY PROJECT, via bridge line by BRAD

 PURDY, Attorney at Law, 2019 North 17th Street, Boise,

 8 Idaho 83702, Telephone (208) 384-1299, Fax (208)

 384-8511, E-Mail bmpurdy@hotmail.com.

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 1 P R O C E E D I N G S

 2 JUDGE CLARK: Good afternoon, it's

 3 approximately 1:35 on October 29th, 2009, in the

 4 Commission's hearing room in Olympia, Washington. This

 5 is the time and the place set for hearing in the matter

 6 of Washington Utilities and Transportation Commission,

 7 Complainant, versus PacifiCorp doing business as Pacific

 8 Power and Light, Respondent, given Docket Number

 9 UE-090205, Patricia Clark, Administrative Law Judge for

10 the Commission presiding. Present for this afternoon's

11 hearing is Chairman Jeffrey Goltz, Commissioner Patrick

12 Oshie, and Commissioner Philip Jones.

13 This matter came before the Commission on

14 February 9th, 2009, when PacifiCorp filed a request for

15 a general rate increase requesting rate relief in the

16 amount of $38.5 Million. On August 25th, 2009, all

17 parties to this proceeding filed a settlement agreement

18 for rates that would take effect on January 1, 2010.

19 According to the settlement, PacifiCorp now seeks to

20 collect an additional $13.5 Million in rates or a 5.3%

21 rate increase.

22 At this time I would like to take appearances

23 on behalf of the parties, appearing on behalf of

24 PacifiCorp.

25 MS. MCDOWELL: Katherine McDowell here on

0085

 1 behalf of PacifiCorp.

 2 JUDGE CLARK: Thank you, Ms. McDowell.

 3 And I'm just going to go down the table,

 4 appearing on behalf of the Industrial Customers of

 5 Northwest Utilities.

 6 MR. SANGER: This is Irion Sanger appearing

 7 on behalf of ICNU.

 8 JUDGE CLARK: Thank you, Mr. Sanger.

 9 And appearing on behalf of Public Counsel.

10 MS. SHIFLEY: Assistant Attorney General

11 Sarah Shifley on behalf of Public Counsel.

12 JUDGE CLARK: Thank you.

13 Appearing on behalf of the Commission Staff.

14 MR. TROTTER: For UTC Staff Donald T. Trotter

15 and Jennifer Cameron-Rulkowski.

16 JUDGE CLARK: And on the bridge line

17 appearing on behalf of The Energy Project.

18 MR. PURDY: Brad Purdy.

19 JUDGE CLARK: Thank you, Mr. Purdy.

20 All right, at this juncture I just want to

21 thank everyone for accommodating a somewhat unusual

22 seating arrangement for counsel this afternoon. We have

23 a very large panel that will be presenting testimony for

24 Commissioner inquiry, and we had to kind of adjust our

25 seating arrangement, so I would like to thank you for

0086

 1 that.

 2 Briefly what we will do this afternoon is we

 3 will turn first to counsel for each of the parties to

 4 give the Commissioners a brief opening statement. After

 5 concluding opening statements, we will empanel the

 6 witnesses in the seats before the Commission and have

 7 those witnesses sworn in so they can present their

 8 testimony. If there's any additional examination of

 9 those witnesses, that should be conducted prior to

10 Commissioner inquiry.

11 I did distribute the exhibit list of all of

12 the documents in this proceeding electronically to all

13 the parties, and so if there is no objection to receipt

14 of all of those exhibits, they will be received this

15 afternoon, with the exception of Exhibit Number 2, which

16 is a compilation of the public comments. The public

17 comment period has not yet closed, and therefore it

18 would be premature to expect that that exhibit would

19 have been submitted. I have provided a copy of the

20 exhibit list to the court reporter, and so hopefully we

21 can address having all of those exhibits admitted this

22 afternoon.

23 Are there any preliminary matters that we

24 need to address?

25 All right, then I will proceed to call on

0087

 1 counsel for your opening statements this afternoon. I

 2 would like to commence with PacifiCorp, please,

 3 Ms. McDowell.

 4 MS. MCDOWELL: Thank you, Judge Clark, and

 5 good afternoon, Commissioners. Thank you so much for

 6 the opportunity to provide an opening statement

 7 supporting the approval of the stipulation the parties

 8 have submitted to you all today. An overview of the

 9 evidence in this case demonstrates that the settlement

10 is lawful and supported by an appropriate record and

11 also consistent with the public interest. And those are

12 the two points I'm going to briefly discuss today

13 outlining the evidence in support of those two sets of

14 issues.

15 So first, the settlement is lawful and

16 supported by an appropriate record. The parties in this

17 case were fortunate to have some direct guidance from

18 the Commission in the form of Order 08 issued in early

19 September I believe clarifying the kind of support the

20 Commission is looking for when receiving a stipulation

21 such as the one we submitted in this case. And

22 consistent with the Commission's direction in that

23 order, the settlement testimony in this case is framed

24 and supported by the evidence on file, which in this

25 case consists of the Company's direct filing, and then

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 1 goes on to explain from the perspective of each party

 2 why the agreement satisfies the interests of the

 3 sponsoring party and is also in the interests of the

 4 public. That testimony makes clear that the agreement

 5 in this case occurred only after the parties thoroughly

 6 analyzed the Company's case and only after the company

 7 responded to more than 800 data requests, so clearly the

 8 audit and analysis of the Company's case in this case

 9 leading up to the settlement was thorough and informed

10 the Company's decision and the parties' decision to

11 settle this case.

12 I want to highlight the agreements of the

13 settlement on three issues to show how the settlement is

14 consistent with the public interest, the other standard

15 that we need to address today. There are agreements on

16 three sets of issues that I think are important in terms

17 of understanding the settlement. First, revenue

18 requirement and rate of return. Second, rate spread and

19 rate design and low income bill assistance. And third,

20 an ancillary set of issues related to the rate increase

21 but not directly impacting it.

22 So on the first set of issues, the revenue

23 requirement and rate of return, as Judge Clark indicated

24 the stipulation in this case supports an annual revenue

25 increase of $13.5 Million or 5.3%, and that's in

0089

 1 contrast to the Company's originally filed case of $38.5

 2 Million or 15.1%, so the stipulation is approximately

 3 one third of what the Company originally filed. The

 4 primary cost driver in this case for the Company was

 5 cost recovery of the Company's new capital resources,

 6 its Chehalis gas resource and the Marengo II and Goodnoe

 7 Hills wind resources. In this case the stipulation

 8 agrees that both the Marengo II and Chehalis facilities

 9 are prudent and used and useful. The Company's filing

10 in this case included an increase to Washington

11 allocated net electric plant in service of more than

12 $125 Million in excess of what was in the Company's 2008

13 general rate case. The level of revenue increase

14 proposed in this stipulation is supported merely by

15 viewing those specific cost items in isolation of all of

16 the other Company's costs, but the proposed revenue

17 increase in this case also includes an agreement to

18 amortize a total of $18 Million of deferred cost related

19 to the Chehalis plant over a period of 6 years. That

20 agreement permits cost recovery over a shorter time

21 period than the Company originally proposed, which

22 reduces costs to customers. So in addition to the

23 capital cost recovery component, which is a critical

24 component, the parties also agreed to maintain the rate

25 of return of 8.06% with no specific agreement on the

0090

 1 underlying capital costs or capital structure but an

 2 agreement essentially to hold the status quo from the

 3 Company's last litigated rate case which produced a

 4 return on equity of 10.2%. The agreement also at least

 5 indirectly impacts or addresses environmental concerns

 6 by agreeing to include both the new wind resources and

 7 the Chehalis gas fired plant in rate base. The Chehalis

 8 gas fired plant satisfies Washington's new Greenhouse

 9 Gas Emissions Performance Standard. And additionally as

10 I will discuss, the parties agreed to renewable energy

11 credit reporting to increase the transparency of the

12 Company's REC allocation and use. So in summary on

13 revenue requirement and rate of return, the Company's

14 agreed to maintain essentially the status quo with

15 respect to rate of return, the parties agreed to the

16 introduction of the new resources in rate base and

17 agreed to a revenue increase that reflected that.

18 With respect to the second set of agreements

19 on rate spread and rate design and low income bill

20 assistance, the agreement on this set of issues

21 essentially maintains the status quo for Washington

22 customers, and this was an outcome acceptable to the

23 Company primarily because it was supported by all of the

24 other parties. So with respect to rate spread, the

25 agreement calls for all schedules to receive an equal

0091

 1 percentage increase. With respect to rate design, the

 2 parties agreed to the Company's rate design proposals

 3 with one exception, which is to retain the current basic

 4 residential charge of $6 a month. And then finally on

 5 this set of issues, the LIBA credit, the low income bill

 6 assistance credit, was increased at the same level as

 7 the overall percentage change in residential rates,

 8 essentially holding that relationship constant.

 9 So let me quickly turn to the last set of

10 issues addressed by the agreement of the parties, and

11 that is the ancillary issues relating indirectly to the

12 Company's request for a rate change. The parties agreed

13 to really three important provisions I just want to

14 touch on. First, the parties agreed to accept or adopt

15 the Company's new temperature normalization methodology.

16 Second, as I mentioned the parties agreed to a REC

17 reporting regime or a process by which the Company will

18 report additional information on its REC sales through

19 December of 2012, and this provision was designed to

20 permit the parties to better understand the Company's

21 allocation and use of RECs prior to the effective date

22 of Washington's renewable portfolio standard. And then

23 the third ancillary agreement just to touch upon was the

24 resolution of the Company's pending pension curtailment

25 filing, and I won't get into the details of that other

0092

 1 than to say that that was a case that was pending

 2 parallel to the rate case, and the rate case essentially

 3 folded in a resolution of that proceeding as a part of

 4 the revenue increase in this case.

 5 So in summary, we believe that the testimony

 6 here will show that the agreement before you today is

 7 the result of hard work presenting and analyzing the

 8 Company's filing, perseverance and creativity in the

 9 negotiation process, and flexibility required to produce

10 balanced outcomes on all of the issues I've just touched

11 upon. In summary, by combining agreements on revenue

12 requirement, rate spread and rate design, and the

13 ancillary issues, the agreement produces a fair result

14 that is consistent with the public interest. We

15 respectfully request your approval of the agreement on

16 that basis. Thank you very much.

17 JUDGE CLARK: Thank you, Ms. McDowell.

18 Mr. Trotter.

19 MR. TROTTER: Thank you, Your Honor. I would

20 also like to thank the Commissioners for their

21 flexibility in scheduling this hearing for today as

22 opposed to some other dates on which I personally was

23 not going to be available, I appreciate that.

24 Just to follow up on some comments that

25 Ms. McDowell made, the Company applied for a 15.1%

0093

 1 general rate increase, but as part of that the Company

 2 also asked that after the hydro deferral expired on its

 3 own terms that that same tariff increment be used to

 4 amortize the Chehalis deferral, so that was not

 5 reflected in the 15.1%, so really what was before you

 6 was about a percentage higher than that, percentage

 7 point higher, and the resolution before you combines all

 8 of those issues into a single 5.3% increase. So from

 9 our perspective, we're not going to say that that's

10 prima facie evidence of reasonableness, the comparison

11 of those two numbers, 5.3 and something above 15.1, but

12 we do think it's a good rough check, but rough check

13 doesn't cut it, of course, and we certainly understand

14 that.

15 As Ms. McDowell indicated, the parties did

16 conduct a very extensive and detailed analysis of this

17 filing. As you can see from the procedural schedule and

18 filing of this particular settlement, the negotiations

19 and the filing were very near to the date for filing

20 testimony. So I can't speak for other parties, I

21 certainly understand that Staff and other parties were

22 working on their testimony and getting their case

23 finalized when this settlement was filed, so we came to

24 the negotiating table very well prepared and up on all

25 the issues and after doing a complete investigation. So

0094

 1 this is not a case of an early settlement, but rather I

 2 think a very timely one. Staff is very comfortable with

 3 the result based on the extensive audit that it did.

 4 And Mr. Schooley is here to talk about that and answer

 5 any questions you may have, including the expert that

 6 Staff retained on cost accounting.

 7 Ms. McDowell did not specifically identify

 8 the provisions of the settlement that require you to

 9 make findings, specific findings, but those are I think

10 also reasonable. Those are in two, well, a couple of

11 areas. One is the settlement asks you to find that the

12 Chehalis plant and the expansion of the Marengo facility

13 which we're calling Marengo II were prudent and are used

14 and useful for service. The Commission in the last

15 settlement approved a term that found Marengo 1 to be

16 prudent, and Marengo II we think is even a better deal.

17 Obviously once you've got a plant there, it's easier to

18 expand it than to start all over somewhere else, so it

19 should be a better deal, but in fact it was also a very

20 good deal, and the testimony is pretty clear on the

21 beneficial to rate payer price of the Chehalis plant.

22 So those are findings, Mr. Nightingale is providing you

23 the factual testimony on the prudence side, he refers to

24 Company evidence as well, so to some extent that's

25 cumulative, but he is our witness on those finding

0095

 1 issues.

 2 And then with regard to the Greenhouse Gas

 3 Statute, as the Commission is well aware, that statute

 4 was enacted recently and amended just in the last

 5 session, but this is a mandatory statute applicable to

 6 electric companies regulated by the Commission, and so

 7 Staff through Mr. Nightingale is presenting you with its

 8 investigation of that issue and whether the Company was

 9 compliant with that statute, and also that supports the

10 element of the stipulation that calls for a deferral,

11 recovery of the deferred costs. As you well know, the

12 statute permits companies to defer for Commission

13 consideration their costs of plants that qualify under

14 that statute.

15 Ms. McDowell referred to Docket UE-081997,

16 which is an accounting petition docket, I just want to

17 emphasize that that has to do with pension costs, and

18 that was an issue raised in the case, so it's before you

19 in two different contexts, we're not trying to fold that

20 docket in here. And how that works is if you approve

21 the, I believe it's in Paragraph 18 of the settlement

22 stipulation, if you approve that provision, the Company

23 would withdraw its petition in the docket that I

24 identified.

25 And then finally, I would note that Staff is

0096

 1 unaware of any public opposition to this settlement. As

 2 the Commission learned itself in Yakima, there wasn't an

 3 extensive amount of public comment, but we didn't

 4 understand there to be any opposition to this particular

 5 resolution. And perhaps Public Counsel can make her

 6 observations about the written comments that will be

 7 filed in Exhibit 2.

 8 So for all of these reasons and reasons that

 9 Mr. Schooley and Mr. Nightingale can provide you on a

10 factual level, the Staff supports this settlement.

11 JUDGE CLARK: Thank you, Mr. Trotter. Does

12 that conclude your remarks?

13 MR. TROTTER: It does, thank you.

14 JUDGE CLARK: I'll turn next to you,

15 Ms. Shifley, for opening statement on behalf of Public

16 Counsel.

17 MS. SHIFLEY: Good afternoon, Your Honor,

18 Commissioners, and Chairman. Like the other parties to

19 this case, Public Counsel did complete a thorough review

20 and analysis of the Company's filing, which included the

21 retention of 4 expert witnesses and the issuance of over

22 250 data requests. Based on this review, we believe

23 that the settlement is in the public interest and should

24 be approved. Public Counsel gave particular attention

25 to a few issues in this case, net power costs, recovery

0097

 1 of deferred Chehalis plant costs and proposed period of

 2 amortization for those costs, the accounting order

 3 regarding pension curtailment, projected major plant

 4 additions, and the Company's proposed rate design and

 5 cost of capital. As Ms. McDowell noted, the net power

 6 cost component represented a substantial portion of the

 7 Company's request, and so our expert witness on power

 8 costs, Mark Widmer, is here today to appear on the panel

 9 and answer any questions that the Commissioners may have

10 regarding power costs.

11 There were a few terms in the settlement that

12 were of particular importance to Public Counsel. One

13 was the total overall revenue increase requested, which

14 lowers it dramatically as Mr. Trotter pointed out. The

15 agreement by the parties to not increase the fixed

16 customer charge, the lower overall costs to be deferred

17 for the Washington allocated costs associated with

18 PacifiCorp's acquisition of the Chehalis plant, the

19 resolution of the petition regarding the pension

20 curtailment, and the REC reporting requirement which is

21 described in the settlement stipulation and Attachment

22 C. On that point, we would just note that it is our

23 understanding that the REC reporting requirement is

24 designed to help the parties and the Commission learn

25 about and monitor PacifiCorp's activity with regard to

0098

 1 RECs and does not serve to waive any party's right to

 2 take any future litigation position on the treatment of

 3 RECs or their associated revenues for PacifiCorp or any

 4 other regulated utility.

 5 And I thank you all for the opportunity to

 6 present this settlement and would once again just repeat

 7 Public Counsel's position that the settlement agreement

 8 is in the public interest and should be approved. Thank

 9 you.

10 JUDGE CLARK: Thank you, Ms. Shifley.

11 Mr. Sanger.

12 MR. SANGER: Thank you, Your Honor, good

13 afternoon, Commissioners. My name is Irion Sanger, I am

14 the attorney representing the Industrial Customers of

15 Northwest Utilities. ICNU strongly recommends that the

16 Commission approve the settlement. The settlement would

17 increase rates by $13.5 Million on an equal percentage

18 basis and resolve PacifiCorp's Chehalis deferral. The

19 settlement itself is a black box which does not

20 specifically identify the revenue requirement components

21 of PacifiCorp's rate increase. ICNU believes this type

22 of black box settlement is appropriate if all the major

23 parties support the settlement and reach an agreement on

24 the overall revenue requirement and how to allocate

25 those costs to customers.

0099

 1 ICNU retained three expert witnesses to

 2 review PacifiCorp's filing, and they conducted

 3 comprehensive analysis of cost of capital issues, rate

 4 spread and rate design, and power costs. ICNU's support

 5 for the settlement is based upon the analysis of these

 6 three consultants. For example, consultant Don

 7 Schoenbeck, who reviewed rate spread and rate design,

 8 supports his -- his analysis supports the equal

 9 percentage rate increase that all the parties agreed to

10 as part of the settlement.

11 ICNU encourages the Commission to adopt the

12 settlement in its entirety. Given that the settlement

13 would be the third major rate increase in a little over

14 three years, ICNU hopes that the revenues obtained in

15 the settlement will allow PacifiCorp an opportunity to

16 manage its operations and not file a rate increase in

17 2010. I'm available to answer any questions you may

18 have regarding ICNU's position, the analysis we

19 conducted, or our recommendation for the settlement.

20 Thank you very much.

21 JUDGE CLARK: Thank you, Mr. Sanger.

22 And we have Mr. Purdy I'm turning to now

23 appearing on the bridge line, and I will just remind you

24 that when you're appearing on the bridge line it might

25 be necessary for you to speak a little more loudly and

0100

 1 slowly than you would ordinarily speak so that the court

 2 reporter can get your comments. Mr. Purdy.

 3 MR. PURDY: All right, thank you very much,

 4 Your Honor and Commissioners. I would be remiss if I

 5 were not to express my appreciation for your allowing me

 6 to join in on the bridge line as well as for my client

 7 Mr. Eberdt. I learned yesterday I have the Swine Flu,

 8 and it was suggested to me that that might not be very

 9 popular at the Commission if I were to show up, so thank

10 you.

11 And also I think we're getting 3 to 5

12 minutes, and I note that conveniently The Energy Project

13 essentially weighed in on 3 issues, so having said what

14 I've already said now, if I do this right I can make

15 this fairly quick. The Energy Project did not through

16 the testimony of Mr. Eberdt address issues of course

17 that were not germane to the 3 issues which I will

18 discuss in a moment raised by The Energy Project during

19 the course of this proceeding, so that's why you won't

20 see anything about some of these other issues that we

21 heard discussion of prior to my statement.

22 The rationale for The Energy Project's

23 agreement to sign the settlement is essentially it

24 solves any issues that it weighed in on. The Company is

25 to be commended for having without being limited or

0101

 1 prompted in any way proposed having proposed additional

 2 low income bill payment assistance funding in its direct

 3 case. As you are all aware, this is always a very

 4 important issue to The Energy Project. The Energy

 5 Project while it unconditional supports the settlement

 6 presently before the Commission, it will continue to

 7 work collaboratively with the Company to reduce the

 8 disparity between resources and the needs of the

 9 Company's lowest income customers, and Mr. Eberdt

10 discussed that in his testimony.

11 The second issue that was of importance to

12 The Energy Project was how the additional funding would

13 be allocated. Initially the Company proposed a 50/50

14 split by which 50% of the funding would go to --

15 increased funding would go to additional recipients and

16 50% to the existing member recipients. For reasons that

17 Mr. Eberdt could much better than I explain, The Energy

18 Project's preference was that all of the increased LIBA

19 funding goes to the existing number of customers.

20 Finally the third issue has to do with the

21 basic charge, and as I believe Public Counsel indicated

22 there were a number of people that had opinions about

23 this, The Energy Project was one of them. For most of

24 PacifiCorp's customers, particularly those whose usage

25 is relatively non-discretionary, increasing the basic

0102

 1 charge doesn't necessarily lead to a reduce of energy

 2 consumption. You have to consume so much, a certain

 3 amount of energy obviously, to survive, and therefore

 4 increasing the basic charge, which the Company agreed to

 5 not do, and we appreciate that, it really hits the

 6 lowest income customers the hardest. And so again, The

 7 Energy Project is appreciative that the Company changed

 8 its proposal on that issue as well.

 9 So in short The Energy Project signed the

10 settlement because PacifiCorp agreed to the three issues

11 that my client weighed in on. And again, we do look

12 forward to a collaborative working relationship with

13 PacifiCorp in future rate cases. And that is all I have

14 unless there are any questions, thank you.

15 JUDGE CLARK: Thank you, Mr. Purdy.

16 All right, why don't we take just a couple of

17 moments off record to allow the panel members to come

18 forward and take seats. We'll be off record for a

19 moment.

20 (Discussion off the record.)

21 JUDGE CLARK: The record should reflect that

22 all of the panel members who will be presenting

23 testimony this afternoon in the Commission's hearing

24 room are seated, and in addition we have four

25 individuals who are appearing on our bridge line and

0103

 1 will be presenting their comments via the bridge line.

 2 At this juncture I need to swear in all witnesses

 3 including those witnesses who are appearing on the

 4 bridge line, at this time if you would rise and raise

 5 your right hand, please.

 6

 7 Whereupon,

 8 CATHIE A. ALLEN, ANDREA L. KELLY, THOMAS

 9 E. SCHOOLEY, DAVID NIGHTINGALE, MARK T.

10 WIDMER, LEA DAESCHEL, GLEN A. WATKINS,

11 ROBERT M. MEEK, CHARLES EBERDT, and

12 DONNA RAMAS,

13 having been first duly sworn, were called as witnesses

14 herein and were examined and testified as follows:

15

16 JUDGE CLARK: All right, I'm going to now ask

17 counsel for each of the witnesses that you're sponsoring

18 to go ahead and identify those individuals briefly on

19 the record, and if you wish, this would be an

20 appropriate time to inquire of your witnesses if there's

21 any corrections, additions, or deletions to the

22 testimony that they are sponsoring this afternoon, and I

23 will begin with you again, Ms. McDowell.

24 MS. MCDOWELL: Thank you, Judge Clark, our

25 witnesses today are Ms. Cathie Allen and Ms. Andrea

0104

 1 Kelly.

 2

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

 4 BY MS. MCDOWELL:

 5 Q. Ms. Allen, can you briefly identify the

 6 testimony that you have prepared in this proceeding.

 7 A. (Ms. Allen) Yes, I have prepared testimony

 8 on behalf of the Company.

 9 Q. And is that testimony CAA/ALK-1T?

10 A. (Ms. Allen) Correct.

11 Q. And, Ms. Kelly, did you also participate in

12 the preparation of that testimony?

13 A. (Ms. Kelly) I did.

14 Q. And, Ms. Allen and Ms. Kelly, do either of

15 you have any changes or corrections to that testimony?

16 A. (Ms. Kelly) I have one on page 13, line 11,

17 the word --

18 JUDGE CLARK: You need to wait and let us get

19 there first.

20 MS. KELLY: Sorry.

21 JUDGE CLARK: That's all right. Page 13?

22 MS. KELLY: Yes.

23 JUDGE CLARK: Line 11.

24 A. (Ms. Kelly) Line 11, the word projected

25 should be project, the E and the D should be removed.

0105

 1 And that's my only change or correction.

 2 BY MS. MCDOWELL:

 3 Q. And, Ms. Allen, do you have any changes or

 4 corrections?

 5 A. (Ms. Allen) No, I have no other changes.

 6 MS. MCDOWELL: So with that, we would submit

 7 that testimony as part of the overall submission of

 8 exhibits when the time comes to do that. Thank you,

 9 Judge.

10 JUDGE CLARK: All right, thank you.

11 I'm going to turn next to you, Mr. Trotter.

12 MR. TROTTER: Your Honor, Staff is presenting

13 two witnesses. Thomas E. Schooley, he's sponsoring

14 Exhibit TES-1T, and he's the Staff overall witness.

15 Second one is David Nightingale, he's sponsoring Exhibit

16 DN-1TC and Exhibit DN-2. And I will just ask them if

17 they have any corrections to make at this time.

18 MR. SCHOOLEY: I have no corrections.

19 JUDGE CLARK: Thank you, Mr. Schooley.

20 MR. NIGHTINGALE: Neither do I.

21 JUDGE CLARK: Thank you, Mr. Nightingale.

22 MR. TROTTER: That's all, Your Honor.

23 JUDGE CLARK: Thank you.

24 And Ms. Shifley.

25 MS. SHIFLEY: Thank you, Your Honor,

0106

 1 appearing in person on the panel today is Lea Daeschel,

 2 Public Counsel's in-house regulatory analyst.

 3 Ms. Daeschel did not sponsor testimony, but she is here

 4 to answer questions and also to direct questions to our

 5 expert witnesses that are appearing via the bridge line

 6 today.

 7 We also have Mark Widmer who has provided

 8 testimony.

 9

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

11 BY MS. SHIFLEY:

12 Q. Mr. Widmer, your testimony has been

13 identified as MTW-1T; is that correct?

14 A. (Mr. Widmer) Yes, it is.

15 Q. And at this time do you have any corrections

16 to make to your testimony?

17 A. (Mr. Widmer) I do not.

18 MS. SHIFLEY: Thank you.

19 Appearing on the bridge line we have Donna

20 Ramas.

21 BY MS. SHIFLEY:

22 Q. Ms. Ramas, the testimony that you have

23 submitted in this case is identified as DR-1T; is that

24 correct?

25 A. (Ms. Ramas) Yes, it is.

0107

 1 Q. Ms. Ramas, do you have any corrections or

 2 additions to make at this time?

 3 A. (Ms. Ramas) No, I do not.

 4 MS. SHIFLEY: We also have on the bridge line

 5 Glen Watkins.

 6 BY MS. SHIFLEY:

 7 Q. Mr. Watkins, have you prepared testimony in

 8 this case?

 9 A. (Mr. Watkins) Yes, I have.

10 Q. And is that testimony identified as GAW-1T?

11 A. (Mr. Watkins) Yes, it is.

12 Q. Do you have any corrections to make at this

13 time?

14 A. (Mr. Watkins) No, I don't.

15 MS. SHIFLEY: Thank you.

16 JUDGE CLARK: Thank you.

17 And Mr. Purdy.

18 Yes, The Energy Project's sole witness is

19 Mr. Charles Eberdt.

20

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

22 BY MR. PURDY:

23 Q. Mr. Eberdt, have you previously filed and are

24 sponsoring testimony CME-1T in this proceeding?

25 A. (Mr. Eberdt) Yes, I am.

0108

 1 Q. Do you have any corrections to that

 2 testimony?

 3 A. (Mr. Eberdt) no, I do not.

 4 Q. Thank you. And you don't have any exhibits

 5 either, do you?

 6 A. (Mr. Eberdt) No, sir.

 7 MR. PURDY: Thank you.

 8 JUDGE CLARK: All right.

 9 And Mr. Sanger.

10 MR. SANGER: Appearing on the phone an behalf

11 of the Industrial Customers of Northwest Utilities is

12 Mr. Robert Meek.

13

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

15 BY MR. SANGER:

16 Q. Mr. Meek, is it correct that you are

17 sponsoring your testimony which is identified as RMM-1T?

18 A. (Mr. Meek) Correct.

19 Q. Is it also correct that you do not have any

20 changes or corrections to that testimony?

21 A. (Mr. Meek) That is also correct.

22 MR. SANGER: When the appropriate time comes,

23 Judge Clark, we would like to move for the admission of

24 the testimony of Mr. Meek.

25 JUDGE CLARK: All right, thank you.

0109

 1 All right, at this time then I'm going to

 2 turn to inquiry by the Commissioners. I'm going to

 3 commence with Commissioner Jones.

 4 BY COMMISSIONER JONES: Good afternoon,

 5 everyone.

 6 My first question is directed to

 7 Ms. McDowell. I think in your opening statement you

 8 were talking about the two generating facilities that

 9 are at issue in this case, and you mentioned something

10 about jurisdictional rate base and the figure of $125

11 Million in terms of a request. I see the agreement

12 regarding prudence on page 9 of the stipulation, but I

13 don't see anything regarding or mentioning $125 Million

14 rate base, so could you clarify that?

15 MS. MCDOWELL: Commissioner Jones, that

16 reference I made was really to one of the recitals in

17 the stipulation. As background for the stipulation on

18 page 2 there's a series of recitals.

19 COMMISSIONER JONES: Okay.

20 MS. MCDOWELL: And those recitals include

21 what the rate request was in the Company's original

22 filing and what components were included in the original

23 filing including the electric plant in service of more

24 than $125 Million since the Company's last general rate

25 case. So I made that reference to the recital as what

0110

 1 was in the Company's original filing, that is not --

 2 there is no finding required or requested in the

 3 stipulation with respect to that particular number.

 4 COMMISSIONER JONES: Right.

 5 MS. MCDOWELL: That was really more just

 6 background and context, again kind of a rough check on

 7 the reasonableness of the settlement and a different way

 8 of looking at what was the filing and what is now in the

 9 stipulation.

10 COMMISSIONER JONES: So there's no request

11 for a finding or anything for the Commission to consider

12 on that particular point that you made --

13 MS. MCDOWELL: That's correct.

14 COMMISSIONER JONES: -- that's listed in the

15 recital?

16 MS. MCDOWELL: That's correct.

17 COMMISSIONER JONES: The only element in the

18 stipulation is on page 9 where the parties agreed that

19 the Marengo II wind project and the Chehalis generating

20 project were prudent and these facilities are used and

21 useful for Washington customers?

22 MS. MCDOWELL: That's correct, thank you.

23

24

25

0111

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

 2 BY COMMISSIONER JONES:

 3 Q. My next question I think is directed more

 4 toward the Company, maybe Ms. Kelly or you could handle

 5 this one. We understand that the amortization of the

 6 proposed $18 Million Chehalis regulatory asset is

 7 included in the $13.5 Million of new revenue agreed to

 8 in the settlement; is that correct?

 9 A. (Ms. Kelly) That's correct.

10 Q. And is it also correct that in the

11 stipulation there's an amortization period proposed for

12 6 years, roughly $3 Million per year starting January

13 1st, 2010; is that correct?

14 A. (Ms. Kelly) Yes.

15 Q. Please explain how, if at all, this agreement

16 regarding creation and recovery of the Chehalis asset

17 will affect Schedule 96, the hydro deferral surcharge?

18 A. (Ms. Kelly) It will not affect Schedule 96.

19 Schedule 96 will continue as the hydro deferral

20 surcharge and will be exhausted when the balance that

21 was approved by the Commission in the last case is

22 exhausted.

23 Q. And when is that expected to go to zero?

24 This is not in the stipulation I know, but I'm just

25 asking you.

0112

 1 A. (Ms. Kelly) I believe the date is

 2 approximately in 2011.

 3 Q. Okay.

 4 This is a clarifying question as well. I

 5 think I know the answer, but I would just like you to

 6 state it. Will the amortization of the Chehalis

 7 regulatory asset be recovered in base rates or through a

 8 surcharge?

 9 A. (Ms. Kelly) It will be recovered in base

10 rates.

11 Q. In light of these agreements in this docket,

12 are there any actions necessary regarding the previous

13 deferred accounting petition that the Commission

14 approved, UE-082252, this is regarding the Chehalis

15 generating plant, is the Company asking for any action,

16 what's going to happen with that accounting petition?

17 A. (Ms. Kelly) I believe the only action that

18 will continue in that docket is for the Company to

19 continue to file its quarterly reports in respect to

20 that in that docket. However, the docket itself under

21 the rules was a notice by the Company that it intended

22 to make the deferral rather than a request for any

23 action by the Commission, and the action by the

24 Commission is to be taken in this docket only.

25 Q. My next question is for all the parties I

0113

 1 think. It regards the January 11, 2010, date, I forget

 2 what it said in the stipulation right away, but is -- I

 3 guess to the -- it's on page 9, Section L, I guess this

 4 is more directed to Ms. Kelly. Is there any, Ms. Kelly,

 5 is there any magic to that number, January 11?

 6 A. (Ms. Kelly) Actually there is, that is the

 7 date that the suspension period in this docket would

 8 expire.

 9 Q. Okay.

10 A. (Ms. Kelly) And so that's, had we gone to a

11 fully litigated case, that's the date when most likely

12 new rates would have gone into effect, and so we've

13 agreed to not file another general rate case until the

14 end of that what would have been the suspension period.

15 Q. So how would you suggest the Commission

16 regard this position, because you've been around this

17 business of regulation for some time, is it correct to

18 define -- kind of interpret this as a stay-out

19 provision, or is it simply stating the Company's right

20 to file a new rate case on that date or soon after that

21 date?

22 A. (Ms. Kelly) I think it's probably best

23 characterized as a very short stay-out provision from

24 the time of January 1 when the rates become effective

25 under the stipulation as proposed or when they would

0114

 1 have become effective in a fully litigated case on

 2 January 11.

 3 COMMISSIONER JONES: Okay, that's all I have

 4 for now.

 5 JUDGE CLARK: Thank you, Commissioner Jones.

 6 Commissioner Oshie.

 7 COMMISSIONER OSHIE: Thank you, Judge.

 8

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

10 BY COMMISSIONER OSHIE:

11 Q. I want to focus on the temperature

12 normalization methodology that the parties seem to have

13 agreed to, and I guess we can maybe start with a

14 question. Do all the parties agree that this is a

15 methodology that is to be used in the future for making

16 this calculation?

17 Mr. Schooley.

18 A. (Mr. Schooley) Yes, we understand this will

19 be the method used in future rate cases.

20 Q. Okay. And do the other parties agree that

21 this is -- at least it will be a starting point then, is

22 that how we can take it I think, and of course in the

23 provision in the settlement stipulation itself it can be

24 challenged, so there's a -- it's a little bit of an

25 unusual methodology, if you will, and maybe we can talk

0115

 1 about that briefly. This is a, you know, it's an

 2 average of every hourly reading over a period of 20

 3 years, so what was the magic of limiting the data input

 4 to 20 years? We used the 30 year methodology in

 5 previous calculations, this is perhaps more robust

 6 because you have more readings, but why not 30? Was it

 7 information not available, it's you don't feel that it

 8 was particularly useful in enlightening the parties and

 9 the Commission as to what the -- what its conclusions

10 were? Ms. Kelly, I guess you can take a shot at it at

11 least from the beginning here.

12 A. (Ms. Kelly) Sure. In the Company's prefiled

13 testimony, there is an exhibit that shows the trends

14 having to do with heating degree days over a 20 year

15 period and a 30 year period, and we do see a

16 considerable warming trend over the past 20 years, which

17 makes the use of the 20 years a more accurate predictor

18 of what we're going to see in the future. If you move

19 out to the 30 year, because of the differences in the

20 trends the data becomes less reliable.

21 Q. Isn't that the whole purpose though of adding

22 more years to some determination like temperature

23 normalization is to include as many data points as

24 possible so that you tend to pick up trends perhaps not

25 relying on a particular outcome even over a period of

0116

 1 years as pointing out an obvious the temperatures go up,

 2 they go down, the more data you have it will reflect

 3 both the ups and the down periods?

 4 A. (Ms. Kelly) I am not a statistician, but in

 5 my discussions with --

 6 Q. In your many years in the industry.

 7 A. (Ms. Kelly) You keep pointing out my many

 8 years.

 9 The statisticians in our temperature

10 normalization group believe that the inclusion of the

11 data, it's not that we're seeing some years go up and

12 some years go down, but we are seeing a trend in the

13 direction of warming, and based on that they believe

14 that it's statistically more relevant to use the 20

15 years historical period.

16 Q. And I assume that the parties, and this isn't

17 trying to, you know, pick a fight here within the panel,

18 but that the other parties are going to be looking at

19 this in the future as well, this methodology going

20 forward and looking at whether the time period of 20

21 years is appropriate or perhaps 30 or, I don't know, why

22 not 15 as an example just to express it as a

23 hypothetical. So I will just briefly, and it's in the

24 testimony I think of you, Mr. Schooley, on page 17, the

25 18 year peak producing weather method. This is a bit of

0117

 1 a change I believe as well?

 2 A. (Mr. Schooley) Yes, it is.

 3 Q. Okay. And so why the -- and so what's the --

 4 why does Staff believe that this is a more appropriate

 5 way of calculating the monthly peak I guess you could

 6 say rather than taking an average, but I guess it's

 7 using the highest temperature and then the two shoulder

 8 days; did I understand that correctly?

 9 A. (Mr. Schooley) Using those shoulder days

10 seemed to be a confusing aspect of this, but I don't

11 think that was the important change. The important

12 change was taking a comparison of the peak day in each

13 month and comparing it to the peak day whenever it

14 occurred in other months rather than just taking the

15 peak day during that month in the test year and

16 comparing the temperatures on that date throughout time.

17 So that was what the big change was. The change from

18 the 20 years to 30 years was a minor change in

19 calculating those averages.

20 Q. Okay. Is there a -- is this how the Company

21 is proposing, this is really not to you, Mr. Schooley,

22 but maybe to you, Ms. Kelly, is this how the Company is

23 proposing to weather normalize, if you will, in the

24 states in the western control area?

25 A. (Ms. Kelly) Yes.

0118

 1 Q. And is it true, is it systemwide as well?

 2 A. (Ms. Kelly) Yes, we are using the same

 3 methodology in all of our states.

 4 Q. And this methodology has been accepted by all

 5 the commissions that you are jurisdictionally involved

 6 with?

 7 A. (Ms. Kelly) In each of the rate cases where

 8 it's been used, yes. We have not had a rate case in

 9 California with this methodology, but we will be filing

10 one later this year.

11 Q. Okay. Now in the settlement agreement you

12 talk about -- the parties talk about getting together I

13 guess to discuss this more, I would imagine to refine

14 your work with regard to this issue, and it's, you know,

15 it is somewhat of a science and somewhat of an art of

16 course, so what -- is there anything that we need to do

17 as part of this settlement? You're going to convene, do

18 we need to -- is this something the parties are asking

19 us to do in an order to say that you are to convene

20 meetings on this subject matter?

21 A. (Mr. Schooley) I don't believe you need to

22 state that in the order. I think it's something that it

23 behooves the Company to do to increase the understanding

24 among the parties if nothing else. If we do have issues

25 with whether the data is available or if it's not

0119

 1 fitting the what the Company says should be happening,

 2 then we'll bring those up, and that's the purpose of the

 3 meetings.

 4 Q. Okay.

 5 Other members of the panel agree with that?

 6 Mr. Trotter.

 7 MR. TROTTER: This is Donald T. Trotter since

 8 this borders on a legal question. I believe if you

 9 approve the settlement, that includes Paragraph 19 on

10 page 7, that would be self executing. It does say the

11 parties agree to convene discussions prior to the filing

12 of the Company's next general rate case. So if you

13 approve the agreement, those meetings will take place.

14 Q. Okay.

15 Now one last question about this, in your

16 testimony, Mr. Schooley, on page 17, lines 4, 5, and 6,

17 and perhaps the most -- the language I want to focus on

18 is on line 4 where you state:

19 However, in this particular rate filing

20 the shift in temperature data from 30

21 years to 20 years has a relatively minor

22 impact on the adjustment.

23 I'm curious as to your use of that phrase, in

24 this particular rate filing. What did you mean by that?

25 A. (Mr. Schooley) I think in response to data

0120

 1 requests the Company was separating out the effects of

 2 the various changes they were proposing in their

 3 temperature methodology, and the change from the 20

 4 years to 30 years accounted for less than 10% of the

 5 difference compared to the change in the calculation of

 6 the peak that I explained earlier. I think as time goes

 7 by, just the comparison of an average to a volatile

 8 actual could show that a 20 year average would produce

 9 as much or more of a change than a 30 year average might

10 as the waves correspond or differ over time. So in that

11 respect, I would not want to categorize a 20 year

12 average as being closer or farther away from the actual

13 of that year compared to another period of time.

14 Q. And you weren't meaning then in this by using

15 that phrase that there -- perhaps in the next rate

16 filing it might have a significant effect. You're

17 looking at it in sort of a -- as a general view if --

18 that it's not likely to have a -- to continue to have a

19 minor impact over time other than what -- not to restate

20 what you have just testified to or ask you to do that,

21 but -- was my question as confusing to you as my stating

22 is even to me?

23 A. (Mr. Schooley) Would you state that as a

24 question, please.

25 Q. Okay, counsel. No, and so just strike that.

0121

 1 I think what I was getting at, Mr. Schooley,

 2 is that I was only curious about your use of that term

 3 or that phrase, in this particular rate filing. Is it,

 4 you know, what do we have to anticipate in times to

 5 come, and you say here it has had a minor impact, and it

 6 was just a way of just trying to explore whether Staff

 7 anticipates that the methodology would have a more

 8 significant impact in the future or not? Perhaps your

 9 answer, previous answer, explained it, I wanted -- and

10 if you have more to say about it, you know, you're free

11 to do so.

12 A. (Mr. Schooley) What I would add is that I

13 would not want to categorize a future year as being a

14 relatively minor impact if that particular period showed

15 a 20 year average to deviate from the actual compared to

16 a 30 year average if the 2 were compared. They won't

17 necessarily always produce minor impacts compared to one

18 another.

19 Q. Isn't one of the issues always with, you

20 know, using these data points, 20 years, 30 years, is if

21 we don't apply them consistently over time, you tend to

22 change the base line?

23 A. (Mr. Schooley) Yes, that is a concern of

24 Staff's, and it appears that this switch involving more

25 than one data application was a switch that could be

0122

 1 made at this time, and it will be necessary to be

 2 followed in the same manner in the future in order to

 3 have comparable comparisons over time.

 4 Q. All right.

 5 Let's switch gears, so to speak, and I want

 6 to -- I believe in the settlement agreement it follows a

 7 discussion temperature normalization, and that is the

 8 issues that parties have identified with regard to

 9 renewable energy credits or RECs, and apparently there

10 is, you know, there's a -- the parties believe there's a

11 need for reporting on this subject, and is there, you

12 know, perhaps a little more detail as to why you feel

13 it's important. We'll start with Staff, Mr. Schooley,

14 why you think it's important that there be renewable

15 energy credit reporting made by the Company and

16 particularly in this period between now and 2012?

17 A. (Mr. Schooley) I think the issue around the

18 reporting was one of identifying how the Company is, so

19 to speak, generating the RECs and how they are then

20 disposing of them and if there are differences between

21 those. During the next few years if the Company is able

22 to produce a lot of renewable energy credits and then

23 immediately sells them all or even sells the future

24 ones, then we may have nothing left in the future to

25 mitigate our rates. Or we also want to assure that the

0123

 1 Company will be able to meet its obligations under the

 2 renewable energy portfolio standards that we have in

 3 place. So it's more just making sure we understand what

 4 they're doing as well as being able to use that

 5 information in the future.

 6 Q. Is there an interest on the part of Staff to

 7 ensure that we treat this particular issue uniformly

 8 among the three electric companies that we regulate in

 9 the state?

10 A. (Mr. Schooley) Well, that's a good point. I

11 wasn't part of our discussions in this particular rate

12 case, but it will lend itself to understanding how this

13 company is using the RECs and make that comparison with

14 how the other companies are.

15 Q. And in particular Puget, because I believe

16 they're probably the only other company that's actually

17 generating a REC right now?

18 A. (Mr. Schooley) They have a number of plants

19 that do generate RECs, so that's true.

20 Q. This is a question for Ms. Kelly, and it's

21 because you also represent the Company throughout in

22 Oregon and California and I'm sure have contacts in

23 Utah, Wyoming, and Idaho as well, so is the -- what are

24 other states requiring the Company to do with regard to

25 REC reporting?

0124

 1 A. (Ms. Kelly) In the state of California, the

 2 requirements are in place for the renewable portfolio

 3 standard, and so in the state of California we have a

 4 quarterly report that we file with the Commission that

 5 provides an indication of where we are in respect to

 6 compliance. Because the renewable portfolio standard's

 7 in place in California, we're not selling any of

 8 California's allocated RECs. We are banking those or

 9 we're using them for current year compliance.

10 In Oregon, the renewable portfolio standard

11 allows for banking of RECs that are generated after

12 January 1st, 2007, and those can be used in future years

13 when compliance requirements kick in. So in Oregon,

14 once again, we are not selling any of the Oregon RECs.

15 We are banking those for future compliance.

16 In Washington, the banking rules will allow

17 us to bank RECs for compliance purposes beginning in

18 2011, and so we do have a one year period where we are

19 going to be selling Washington allocated RECs rather

20 than banking them. That's what I think this report is

21 getting to, a base line understanding of what the

22 Company's doing. We see it as a good opportunity to

23 make sure that if there are issues out there as far as

24 the actions we're taking, then we would like to hear

25 those, you know, from the stakeholders and be able to

0125

 1 adjust our strategy if necessary.

 2 In the states on the east side of the system,

 3 they do not have any renewable portfolio standards in

 4 place, and so we are in the process of selling RECs for

 5 the east side of the system and their allocated shares.

 6 And in general at this point those are being passed

 7 through in rate case filings and evaluated as part of

 8 the rate cases that we have going in those states, which

 9 have generally been on an annual basis. So the

10 reporting tends to occur within the rate case and within

11 the discovery and the discussions in the rate case.

12 Q. By saying -- by using the term pass through,

13 and that can have many different meanings, but I'm

14 assuming it's the revenues or the proceeds from the REC

15 sales are revenues associated with that particular

16 generating plant are treated as like some like an off

17 system sale of some kind?

18 A. (Ms. Kelly) That's correct, they are treated

19 as other revenues in the FERC account, and so they are

20 an offset to other revenue requirement elements.

21 Q. Okay. And just one last question with regard

22 to this REC reporting issue, and that's it's similar to

23 the question that I asked about the temperature

24 normalization discussions and convening of a meeting,

25 and this is some -- it would be anticipated the parties

0126

 1 would do this informally, or is this one in which

 2 there's a desire for us to require by including an order

 3 in whatever decision we make here that the parties

 4 should convene meetings with regard to this subject?

 5 How much formality I should say, let's shorthand this,

 6 how much formality do the parties need to get the job

 7 done here?

 8 MR. TROTTER: Again, Your Honor, this is

 9 Donald T. Trotter for Commission Staff, this is more of

10 an interpretive issue, but if you read Paragraph 22, it

11 says prior to January 1 of 2013, the parties agree to

12 meet and agree on appropriate changes, if any, to the

13 reporting, and so that meeting will occur if you approve

14 the stipulation, so no additional language would be

15 required of you in my opinion.

16 Q. Okay.

17 Other parties agree?

18 (Ms. Kelly) I do.

19 Q. Counsel?

20 COMMISSIONER JONES: Okay, I don't have any

21 further questions, Your Honor.

22 JUDGE CLARK: Thank you, Commissioner Oshie.

23 Chairman Goltz.

24 CHAIRMAN GOLTZ: Thank you.

25 JUDGE CLARK: I don't think your microphone

0127

 1 is on, Chairman.

 2 CHAIRMAN GOLTZ: Thank you.

 3

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

 5 BY CHAIRMAN GOLTZ:

 6 Q. Referring to page 5 of the stipulation,

 7 Paragraph E or Part E refers to the rate of return, and

 8 in the carryover sentence in the bottom of page 5 and

 9 page 6 states that the parties agree that if needed for

10 reporting and/or accounting purposes, the Company may

11 use the authorized return on equity from the Company's

12 last fully litigated rate case, which is 10.2%, and

13 that's referenced in a footnote, and in the Company's

14 testimony on the settlement you basically just reiterate

15 that, and my question is sort of what is the -- what

16 reporting requirements that require sort of a

17 designation by the Commission of an ROE?

18 A. (Ms. Kelly) The primary purpose of

19 designating the ROE for this -- for use is related to

20 the calculation of allowance for funds or AFUDC, funds

21 used during construction, and that calculation is done

22 in a way that includes an ROE from each of our states as

23 a weighted element of the cost of capital for the

24 Company, and so that's the specific purpose for which we

25 think we will need that. I do also think that the other

0128

 1 parties would look at that level when evaluating the

 2 Company's earnings, but obviously that would also be

 3 done in light of the circumstances at the time when the

 4 Company files its results of operations report. So it

 5 would potentially be a benchmark for the parties to look

 6 at, but I think it's not dispositive of where the

 7 Company should be earning.

 8 Q. Is it also true that the average system cost

 9 methodology and residential exchange program contracts

10 with Bonneville require a Commission approved ROE?

11 A. (Ms. Kelly) Yes, I believe they do.

12 Q. Okay.

13 Is that the understanding of the other

14 parties?

15 A. (Mr. Schooley) I think I understand it that

16 way also.

17 Q. Okay. So my question then is that by just

18 saying -- you just asked for this -- for saying -- a

19 commission -- an order saying that for purposes of

20 reporting 10.2 is fine, is that as I think Mr. Trotter

21 -- is that a rough check, I mean does that cut it with

22 Bonneville, is that enough for Bonneville's purposes?

23 A. (Ms. Kelly) I believe yes, because we just

24 went through the AFC calculation, and the average system

25 cost was calculated using the authorized rate of return

0129

 1 that had been settled in the last case, again referring

 2 back to the litigated case in '05, so this would

 3 continue the process.

 4 Q. Right, and that -- but at that time, of

 5 course that was before I was here, but at that time that

 6 was an actually Commission determined ROE, correct?

 7 A. (Ms. Kelly) It's correct that in the 2005

 8 case it was. In the 2006 case we settled, I'm sorry,

 9 the UE-061546 which was June of 2007, that's where it

10 was litigated. We had another rate case last year that

11 was settled, and the terms of the settlement are very

12 similar to this case in that it referred back to the

13 last litigated case.

14 Q. And that reference back was good enough for

15 Bonneville?

16 A. (Ms. Kelly) Yes.

17 Q. Okay.

18 A. (Ms. Kelly) Sorry.

19 Q. Thank you.

20 A. (Ms. Kelly) We got there.

21 CHAIRMAN GOLTZ: I have a couple questions

22 following up on what my colleagues asked, or maybe it

23 was earlier on, for Ms. Shifley, I was not able to

24 attend the public hearing in Yakima, but it was a

25 relatively modest turnout as public hearings go, and I

0130

 1 haven't seen yet the Exhibit 2, but is there any -- do

 2 you have any -- does Public Counsel have any view as to

 3 the reason for the relatively modest turnout? I think

 4 Mr. Trotter mentioned that there doesn't seem to be a

 5 lot of public or there seems to be some public

 6 acceptance of the proposed settlement, and I was

 7 wondering if that's your understanding as well?

 8 MS. SHIFLEY: Chairman, I also was not able

 9 to attend the public comment hearing. Mr. ffitch for

10 Public Counsel did appear, and I was also informed that

11 turnout was rather low at that hearing. Our office

12 hasn't received a notable amount of written comments,

13 and I know that many times the comments are also

14 directed to the Commission's Consumer Protection

15 Division, so I would want to also defer to them

16 regarding the type of feedback they've received from

17 customers.

18 CHAIRMAN GOLTZ: Let me ask another question

19 following up on a point raised by Commissioner Jones.

20 He asked the Company about the provision that was

21 referred to by Ms. Kelly as a limited stay-out

22 provision, which I think would be limited to nine days,

23 and I was wondering if Staff or Public Counsel has a --

24 would characterize that in a different way?

25 MR. TROTTER: This is Donald T. Trotter

0131

 1 again, do you want to hear from Mr. Schooley or me?

 2 CHAIRMAN GOLTZ: Either one.

 3 MR. TROTTER: I think limited stay-out is an

 4 apt description. I don't think it's been precisely

 5 characterized because it just says they will stay out

 6 until sometime January 11th or later. It would be

 7 speculation as to when this Commission would have issued

 8 an order in a litigated proceeding. Normally a company

 9 has to have permission from a commission to file rates

10 while rates are pending, but on the schedule you might

11 have issued an order in November, so the stay-out

12 compared to that would be a couple months, which is

13 still not particularly long, but it's longer than nine

14 days. So I think there was a general assumption an

15 order would come out maybe around the first of the year,

16 but that's up to you. So I think it depends on how you

17 look at it, but I would characterize it as a limited

18 stay-out provision.

19 CHAIRMAN GOLTZ: Or more aptly here absence

20 of a stay-out provision?

21 MR. TROTTER: Again it depends on when you

22 think an order would have been issued in the case had it

23 been litigated.

24 BY CHAIRMAN GOLTZ:

25 Q. Finally a question for Mr. Eberdt, you're

0132

 1 still there?

 2 A. (Mr. Eberdt) Yes, sir.

 3 Q. The low income bill assistance as I

 4 understand it, the low income bill assistance amount

 5 goes up, so do I have this right that the per customer

 6 benefit would sort of stay equal with sort of the

 7 increased costs so they would be no worse off than they

 8 are today?

 9 A. (Mr. Eberdt) Well, the intention is to

10 reduce the damage as much as possible. They're still

11 going to be worse off, because the assistance never pays

12 the whole bill, so the part of the bill that doesn't get

13 covered is going up.

14 Q. Okay. So even the part -- so even for those

15 -- and as I understand it, it's the same number of

16 customers would be --

17 A. (Mr. Eberdt) Yes.

18 Q. -- would have this assistance available to

19 them now as in the future?

20 A. (Mr. Eberdt) Yes, we did not want to

21 increase the number of customers served.

22 Q. And can you give some description about the,

23 if it's possible in PacifiCorp's service territory,

24 about the number of customers that would be eligible for

25 this, is it growing, is it staying the same, is it

0133

 1 shrinking?

 2 A. (Mr. Eberdt) Well, PacifiCorp's service

 3 territory particularly in the Yakima County area is one

 4 of the highest rates of low income in the state, and I

 5 don't think under the current economic times that's

 6 getting better, so I would expect that we will see more

 7 people applying for assistance than we have in the past.

 8 The difficulty is that the people who get into the

 9 program really are at the bottom of the rung, and so if

10 you try to spread it to more people, I think you tend to

11 endanger the people who get into the program still not

12 be able to maintain access.

13 Q. So I understand the decision was or your

14 preference was to serve fewer people with greater

15 assistance rather than diminish the amount of assistance

16 and spread it over more people?

17 A. (Mr. Eberdt) Yes, because we were afraid

18 that in the latter case we would risk actually not

19 keeping people -- we would risk not keeping -- we would

20 risk more people not being able to maintain service,

21 that's what I'm trying to say. There were also some

22 other considerations that go into it in terms of not

23 wanting to end up having to spend more of the money on

24 administering the program, because every additional

25 person you see requires more administrative costs. And

0134

 1 what the agencies feel, actually all three of the

 2 agencies feel fairly maxed out in terms of their ability

 3 to serve the number of people with the space and staff

 4 that they have. So a small increase in the funding like

 5 this would give that a few more people, but it doesn't

 6 actually provide you with enough admin to hire. You

 7 can't hire a tenth of a person.

 8 Q. Right.

 9 A. (Mr. Eberdt) You know, what it comes down

10 to, you can't buy a tenth of a desk.

11 Q. Okay, thank you, and I have no further

12 questions.

13 A. (Mr. Schooley) Commissioner Goltz, I would

14 like to clarify that the tariff in Schedule 17 states

15 specifically that 4,475 customers will be served by the

16 low income assistance, and that will stay the same.

17 CHAIRMAN GOLTZ: Okay, thank you.

18 JUDGE CLARK: Thank you, Chairman Goltz.

19

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

21 BY JUDGE CLARK:

22 Q. I have just one I would categorize it as a

23 clarifying question for you, Ms. Ramas.

24 A. (Ms. Ramas) Yes.

25 Q. Are you still with us?

0135

 1 A. (Ms. Ramas) Yes.

 2 Q. Okay, great. And I'm looking at page 14 of

 3 your testimony. My understanding is in this proceeding

 4 according to the settlement that the parties have agreed

 5 to a $13.5 Million revenue increase, and my

 6 understanding is there's a different number on that

 7 page. Can you explain that for me, or is that just a

 8 mistake?

 9 A. (Ms. Ramas) I'm sorry, which page were you

10 on?

11 Q. I believe it's page 14.

12 MR. TROTTER: I believe it's 4, Your Honor.

13 Q. I'm sorry, page 4, line 14, I misspoke.

14 A. (Ms. Ramas) Yes, that would be a

15 typographical error, I meant to reference the amount

16 that was specifically identified in the stipulation.

17 JUDGE CLARK: All right, thank you.

18 Is there any other inquiry?

19 Yes, Commissioner Jones.

20

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

22 BY COMMISSIONER JONES:

23 Q. Just a short one following up on Commissioner

24 Oshie's line of inquiry on the RECs, since it is in the

25 record as Appendix C, you know, this REC, you submit

0136

 1 something called the illustrative form of quarterly REC

 2 report, so I would just like to inquire is this going to

 3 be the basis of the report, are you using this in other

 4 states, has this been developed for Washington, and this

 5 is for Ms. Kelly I guess?

 6 A. (Ms. Kelly) Yes, this report was developed

 7 for the state of Washington in discussions with the

 8 parties. It represents the intent of the parties to

 9 have a report similar to this, but we know that as we

10 continue down the path and have dialogue, there may be

11 amendments and changes to the report that we would agree

12 to make that would provide additional detail, those

13 types of things. So we didn't want to lock into a

14 report form that could never change, so that's why it's

15 indicated as illustrative form, but we worked with the

16 parties to develop this.

17 Q. So it's illustrative, and it could be amended

18 or changed based on discussions among the parties?

19 A. (Ms. Kelly) That's correct.

20 Q. Okay.

21 And I don't want Mr. Widmer to feel left out,

22 so I have one for you.

23 A. (Mr. Widmer) Thank you.

24 Q. It's nice to see you are here again wearing

25 another hat, because previously you were with the

0137

 1 Company, but -- at least that's when I've seen you when

 2 I've been on the Bench.

 3 But just a question about the prudency of

 4 Chehalis, and you've been looking at resources for a

 5 long time I know both for the Company and now as a

 6 consultant, so in your testimony I think on page 3 or 4

 7 you talk about why you think the acquisition was

 8 prudent, and you talked about looking at alternatives

 9 in the region, and then you use the words "lost

10 opportunity", you know, if the Company didn't act. So

11 could you just at a higher level kind of tell me at

12 least what you look at when you look at the prudency of

13 a combined cycle gas turbine, is it cost, is it how many

14 plants are in the region, et cetera, what kinds of

15 criteria do you look at the most?

16 A. (Mr. Widmer) There are several things that

17 we look at in terms of trying to determine prudence of a

18 resourced acquisition. Number one is resource need, if

19 the Company has a resource need, there's a reason for

20 them to acquire a resource. Number two would be the

21 economics of the resources they're acquiring. We always

22 want to make sure that the resource that they do acquire

23 is the best deal available for customers so that they

24 don't have to pay too much money. We also want to make

25 sure that the resource is used and useful for customers.

0138

 1 As in the case of Chehalis, I think through the month of

 2 August it generated approximately a million megawatt

 3 hours for Washington customers or to make sales in the

 4 wholesale market. And then last but not least if there

 5 are any type of emission requirements or so forth, you

 6 would want to make sure that the resource was compliant

 7 with those emission requirements, because if it wasn't,

 8 it would be not very useful to the utility and the

 9 customers.

10 COMMISSIONER JONES: Okay, thank you.

11 JUDGE CLARK: All right, thank you,

12 Commissioner Jones.

13 Is there anything further that we need to

14 address with the panel this afternoon?

15 All right, hearing nothing, thank you all

16 very much for your testimony including those individuals

17 who are participating on the bridge.

18 I'm going to see if there are any closing

19 remarks from the Commissioners, otherwise I'm going to

20 take a brief recess to allow the panel members to get in

21 more comfortable seats, and the Commissioners can leave

22 the hearing room, and we can undertake the exciting and

23 interesting aspect of introducing all the exhibits in

24 this afternoon's proceedings.

25 CHAIRMAN GOLTZ: I would just like to thank

0139

 1 you, I thought the written testimony in the settlement

 2 was very thorough and helpful, thank you.

 3 COMMISSIONER OSHIE: And I concur.

 4 COMMISSIONER JONES: I concur.

 5 JUDGE CLARK: Thank you, we'll take a brief

 6 recess.

 7 (Recess taken.)

 8 JUDGE CLARK: We're back on the record, and

 9 the record should reflect that the Commissioners are not

10 present for this portion of this afternoon's hearing,

11 and I believe the sole thing that I have left on the

12 agenda, although I will check with the parties one more

13 time, is to deal with the exhibits that have been

14 offered, well, not offered yet but filed in this

15 particular proceeding. I'm going to work off the

16 exhibit list that I E-mailed that all of the parties,

17 and I'm just going to deal with these in numerical order

18 starting with obviously Exhibit Number 1, which is a

19 response to Bench Requests 1 and 2, which were received

20 by the Commission on March 27, 2009; is there any

21 objection to its admission?

22 Hearing none, it is received.

23 And then I am going to turn to the parties

24 for offering and describing Exhibit 3 and then the

25 testimony of the witnesses in support of this

0140

 1 settlement. So either Mr. Trotter or Ms. McDowell, if

 2 you could please address Exhibit Number 3, which is the

 3 settlement itself.

 4 MR. TROTTER: Well, Your Honor, I'm happy to

 5 do that. Also we did review your excellent compilation

 6 and description, I believe it's accurate. If you want

 7 to do it more summarily, that's fine with me.

 8 JUDGE CLARK: I would love to do it

 9 summarily, and so I would like to ask then at this

10 juncture if anyone has any objection to the admission of

11 any of the exhibits which are presented on the exhibit

12 list previously electronically submitted to the parties?

13 MR. SANGER: No objection, Your Honor.

14 MS. MCDOWELL: No objection.

15 MS. SHIFLEY: No objection.

16 JUDGE CLARK: All right, hearing none, all of

17 the documents that are on that 7-page exhibit list with

18 the exception of Exhibit Number 2, which is the

19 compilation of public comments which will be filed at a

20 later date, are received.

21 Are there any other matters that we need to

22 address at this afternoon's hearing?

23 Hearing nothing, we are adjourned.

24 MR. PURDY: Judge, this is Brad Purdy, I'm

25 sorry, I thought I heard somebody earlier mention

0141

 1 something about putting into the record testimony, is

 2 that still necessary?

 3 JUDGE CLARK: No, that's not necessary any

 4 more, Mr. Purdy, I just now sort of summarily admitted

 5 all 7 pages of exhibits, which did actually save us all,

 6 thank you to Mr. Trotter's suggestion, a rather slow and

 7 painful time period.

 8 MR. PURDY: Thank you for that.

 9 JUDGE CLARK: No problem.

10 Is there anything further to be heard on this

11 afternoon's record?

12 Hearing nothing, we are adjourned.

13 (Hearing adjourned at 3:00 p.m.)

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