Exhibit ___T (APB-5T)
Dockets UE-061546/UE-060817
Witness: Alan P. Buckley

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power & Light Company, Respondent.	DOCKET UE-061546
In the Matter of the Petition of PACIFIC POWER & LIGHT COMPANY For an Accounting Order Approving Deferral of Certain Costs Related to the MidAmerican Energy Holdings Company Transition.	DOCKET UE-060817

CROSS-ANSWERING TESTIMONY OF

Alan P. Buckley

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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Q. Are there other measurements that appropriately indicate the effects of variations in hydro generation for PacifiCorp?

A. Yes. In my direct testimony, Exhibit ___T (APB-1T), page 34, I compare the "best" and "worst" water years, as run through the GRID model. This comparison showed a potential $26.6 million swing in Washington net power supply expense from variations in water years, given the assumptions used for replacement energy prices. On the downside, the exposure was almost $16 million, which is a significant variation compared to overall Washington net power supply expense levels of around $90 million.

Of course, this effect on Washington net power supply expense could increase significantly if replacement energy costs increase over the amounts assumed in the study.

Q. Does PacifiCorp have a lower percentage of hydro in its resource portfolio than Avista or PSE?

A. Yes.

Q. Should that disqualify PacifiCorp from having a PCAM?

A. No. As I explained above and in my direct testimony, PacifiCorp has significant exposure to variations in hydro production, as well as variations in other net power supply expense components that are beyond its control. The fact that this exposure is less, or greater, than other utilities, does not mean the Company should not have a PCAM.

Q. Public Counsel states that the PCAM uses GRID model results that are not reproducible. ***Direct Testimony of Mr. Johnson, Exhibit ___ (SGJ-1T) at 11.*** **Is Public Counsel correct?**

A. No. While the use of the GRID model to determine "adjusted" actuals is not the ideal tool to use for a PCAM, it is the best tool available at the present time. The results can be reproducible and available for analysis prior to the time the Commission approves any final deferral amounts which would flow through to rates via the PCAM.

B. Response to Mr. Falkenberg

1. WCA methodology

Q. Do ICNU and Public Counsel support the adoption of the WCA methodology for use in Washington?

A. The answer is unclear. Mr. Falkenberg appears to be recommending that the Commission outright reject the WCA methodology and deny the Company's requested rate increase. However, he then goes on to recommend several modifications to the WCA methodology, which appear to support a significant rate reduction, saying that outright rejection of the WCA methodology would be "overly generous for the Company." *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 15.*

Q. Has ICNU or Public Counsel proposed an alternative allocation model for use in Washington?

A. No.

Q. Assuming Mr. Falkenberg is recommending that the Commission reject the WCA methodology outright, what basis does he supply to support such a recommendation?

A. His criticism appears to focus on two claims. His first claim is based on his simplistic comparison between the net variable power costs of the Company's Western control area and Eastern control area, using the WCA GRID model. *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 11-13.* His second claim is that the WCA methodology does not meet the Commission's "used and useful" standard. *Id. at 13-15.*

Q. Is Mr. Falkenberg's comparison of net variable power costs a valid criticism?

A. No. Mr. Falkenberg's comparison only addresses net variable power costs. He completely ignores the differences in fixed costs, or the rate base component of determining Washington's total revenue requirements. Mr. Falkenberg's failure to include the revenue requirement associated with the fixed costs of facilities in any overall cost comparison is simply not appropriate.

Moreover, the Commission should expect differences between the net variable power costs of the part of the Company's system that largely relies upon high fixed cost/low variable cost coal generating resources (Eastern control area) and the other part of the system that relies a good deal on a mix of coal and hydro-electric facilities, supported by low fixed cost/high variable cost gas-fired resources and power purchase and sales contracts that are treated as variable power supply costs (Western control area).

Q. Are there valid comparisons that demonstrate the reasonableness of the WCA methodology?

A. Yes. The Commission should simply look at the overall rates for Washington developed using the WCA methodology. Even if the Commission granted the entire rate request proposed by the Company, Washington's rates would still compare very favorably to those in the Company's other jurisdictions. Washington's total power costs would NOT be 62 percent higher than those jurisdictions in the Eastern control area, as Mr. Falkenberg's testimony might suggest.

Q. Does the WCA methodology appropriately address the Commission's "used and useful" standard?

A. Yes. As a starting point, the WCA methodology includes those resources and power contracts contained or initiated in the Company's Western control area. These resources are "used and useful" for Washington, because PacifiCorp operates the Western control area as a single service area. Moreover, the WCA GRID model runs show that Washington's load requirements and Western control area balancing needs can be met by this mix of resources and contracts.

Q. Does the WCA methodology overlook resources located elsewhere that may provide net benefits to Washington?

A. No, for two reasons. First, under the proposed WCA model, additional resources can be explicitly included in the portfolio of resources that are determined to serve Washington if there is a clear showing that they are "used and useful" as the Commission has used that term; that is, they can be included to the extent that a <u>direct</u> allocation of benefits <u>and costs</u> warrants that treatment.

Second, part of Staff's Adjustment 5.4, Eastern Market Modification, reflects an additional West to East market "bubble." This provides Washington additional benefits through economic sales into the Eastern control area.

To the extent the Western control area may be able to make economic purchases from the Eastern control area, and thus attain some benefits from East-side resources, a similar purchase power economy market can be modeled as a refinement to the WCA GRID model. This East to West "bubble" would enable Washington to benefit from any available East-to-West interconnection and potential economic energy purchases from PacifiCorp's portfolio of Eastern control area resources. This would include power available from the Wyodak and Dave Johnson plants, and all other East-side resources. The Commission should order such a modification to the WCA GRID model as part of the Company's next general rate case, or any other proceeding that would address base level power supply costs.

Of course, this additional East to West "bubble" depends on the existence of sufficient transmission capacity to enable the Western control area to make economic power purchases from the Eastern control area. That issue would have to be resolved before the new East to West "bubble" could be implemented.

Q. Does the WCA methodology include a detailed description of how specific resource benefits may move from being implicitly treated, for example as part of an "Eastern market bubble," to having benefits and costs explicitly allocated as one of the portfolio resources?

A. Not yet. However, with the participation of all parties, this refinement can be worked out.

Q. ICNU and Public Counsel claim that the WCA methodology is a "shallow attempt to court favor with the Commission by trading simplicity for higher cost to customers." ***Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 14.*** **Do you agree with this characterization?**

A. Absolutely not. The WCA methodology is a positive response by the Company to issues addressed by Staff, intervenors, and the Commission in previous proceedings. To meets the needs of Washington, the Company has abandoned its previous support of the Revised Protocol methodology that is used in all of its other jurisdictions and has proposed a reasonable and fair methodology consistent with what Staff has recommended previously. To say that this proposal is a "shallow attempt to court favor" is unfair and inappropriate.

It is also unfair for ICNU and Public Counsel to once again recommend the Commission reject a rate filing because of an allegedly inadequate cost allocation method, and then fail to propose an acceptable alternative method.

2. *Public Counsel and ICNU's proposed "corrections" to the WCA methodology*

a. Interconnections

Q. ICNU and Public Counsel state that the WCA methodology does not recognize interconnections between the Western control area and the Eastern control area. Is that correct?

A. The Company's proposed WCA methodology is not based on the existence of any interconnections between the two control areas. Under the Company's proposal, system balancing transactions would be carried out using two markets representing what are called the California-Oregon Border Market and the Mid-Columbia Market, while ignoring any interconnections between Company control areas.

In order to capture any additional benefits for Washington customers that may exist from additional margins that may be available from sales to the Eastern control area as compared to the other markets, Staff proposed Adjustment 5.4, which includes a West to East market "bubble" for use in the WCA GRID model. This change addresses the previous lack of interconnection between control areas that exited under the Company's original proposal, and results in some additional economic benefits for Washington customers related to economic power sales into the Eastern control area. These sales to the East-side market decrease total Washington net power supply expense by $1.05 million in this case.

As I stated earlier, if an East to West "bubble" is added in subsequent rate cases, this has the potential to provide additional benefits to Washington, assuming there is actually available any East-to-West transmission capacity at the time of such purchases.

b. Wyodak and Dave Johnson Plants

Q. What reasons do ICNU and Public Counsel provide for including the Wyodak and Dave Johnson plants in Washington' cost of service?

A. According to Mr. Falkenberg, these plants should be included because they were part of PacifiCorp's system before Pacific Power & Light Company merged with Utah Power and Light Company, and they were included in rate base in prior Washington rate cases. He also says power is delivered from these plants to the West under the GRID model, and the costs of the plants are "more than commensurate with the benefits provided." *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 22-23.*

Q. Are those reasons sufficient for including those projects as part of the WCA resource portfolio?

A. No. The simple fact that these plants where once part of Pacific Power & Light before the merger is not sufficient to include them as a Western control area resource now. Before the merger, Pacific Power & Light operated two control areas. The Wyodak and Dave Johnson plants were interconnected to the control area that served portions of Wyoming. These plants are now located the Company's Eastern control area.

The fact that the Commission may have once set rates by including these plants in the rate base of the former Pacific Power & Light Company, has no bearing on how rates should be developed now based on how the Company's system is structured today.

Q. Do the Wyodak and Dave Johnson projects provide benefits to Washington customers under the WCA methodology?

A. They may, as part of the East-side portfolio of resources that would be available to support potential economic purchases by the West. As I discussed above, if, in subsequent proceedings, the Commission determines that sufficient East-to-West interconnection capacity exists to warrant a further modification to the WCA GRID model, Washington customers may see a net benefit from these projects, as well as other Eastern control area projects, through market purchases from the East-side of the Company's system. These benefits would occur only if and when it is economic to the West to make those purchases, and only if and when there is sufficient East to West transmission capacity to make those purchases. Under this East to West "bubble" approach, there would be no need to directly allocate to Washington the fixed and variable costs of any Eastern control area resources.

Q. Is the lack of an East to West "bubble" at the present time a reason not to apply the WCA methodology?

A. No. Although I believe it is important to recognize the future potential of such purchases, I believe the effect on Washington net power supply costs will be minimal due to the lack of interconnection capacity East-to-West.

Q. What adjustment do ICNU and Public Counsel propose for Wyodak and Dave Johnson?

A. Mr. Falkenberg proposes a two-part adjustment. First, he includes 97 MW of power at a cost of $3.8 million. Second, he includes Wyoming loads to calculate an overall savings of $8.2 million. *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 25.*

Q. Assuming Wyodak and Dave Johnson are included in Washington results of operations, are these adjustments appropriate?

A. No. Without critiquing the specific calculation of the dollar benefits, I simply point out that ICNU and Public Counsel's proposed "correction" does not appear to include any of the fixed costs associated with these projects. Indeed, Mr. Falkenberg claims that any such allocation is not appropriate because the projects do not provide energy to the West during all available hours. *Direct Testimony of Mr. Falkenberg, Exhibit ___ (RJF-1T) at 24.* It is also inappropriate for Public Counsel and ICNU to include in the WCA methodology the loads of a jurisdiction that is not even in the

Western control area as a necessary step to specifically include these projects the model.

From Staff's perspective, if the benefits from these projects are to be specifically allocated to Washington, as ICNU and Public Counsel propose, then it is inappropriate for them to exclude a significant portion of the costs of these projects.

On the other hand, Mr. Falkenberg's admission that these projects are not available during on-peak hours calls into question the entire logic of ICNU's direct allocation of the benefits of these projects through the WCA methodology in the first place.

c. Short-term transaction modeling

Q. What is Public Counsel and ICNU proposed treatment of short-term transactions that are modeled in the WCA GRID model?

A. Public Counsel and ICNU propose to remove all short-term firm transactions from the model. This adjustment appears to be based on two points – first, that only actual transactions arranged as of the filing date where included; and second, the transactions have not been demonstrated to be needed to serve Washington. *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 29-32.*

The result of removing these transactions is to restate all Western control area balancing transactions at what appears to be more favorable prices, thus lowering the net power supply expense.

Q. Is it appropriate to eliminate all short-term firm power transactions in determining Washington net power supply expense?

A. No. The Company uses a combination of short-term firm transactions and economy market transactions to balance its Western control area and system requirements. Therefore, the WCA GRID model should, to the extent possible, include any actual short-term firm transactions in as timely a manner as possible. Because there is a discrepancy between the rate year and the transactions that are known as of the date the Company filed its case, the Commission could order the Company to file an updated WCA power cost study as part of any compliance filing. However, ICNU and Public Counsel's proposal to simply eliminate these transactions because they may be "below market", compared to more recent and potentially more favorable economy market prices, is not appropriate.

In the alternative, most of the discrepancies between the short-term firm transactions that are assumed in the base power supply expense, and more current short-term firm transactions, are mitigated through the use of a PCAM, because the PCAM would capture the actual short-term firm transactions.

Q. When can the Commission evaluate the prudence of short-term firm transactions?

A. The Commission can evaluate the prudence of these transactions as part of the annual review process proposed under the PCAM.

The Company needs to prudently manage its short-term firm transactions in a manner that minimizes overall net power costs, with an appropriate balance of the risk and rewards of any buy-sell arrangements that may be entered into. Initially, short-term firm transactions can be included as one of the items PacifiCorp reports as part of Staff's proposed monthly PCAM reports. Once the Commission gains a greater understanding of these transactions, perhaps the annual review process will suffice.

3. Power supply issues

a. SMUD Contract

Q. What is the SMUD Contract?

A. The SMUD contract was entered into in 1987 under which PacifiCorp sells power to the Sacramento Municipal Utility District (SMUD). The contract calls for PacifiCorp to provide power at an $18/MWh rate.

Q. What treatment of the SMUD contract does PacifiCorp propose?

A. PacifiCorp imputes a $37 sales rate for the SMUD contract energy, which apparently is a treatment ordered by the Utah commission. The Company's proposal in this proceeding recognizes that the Commission may have an issue with the prudence of the original contract terms, although no such finding has been made in Washington. The $37 imputed rate is based on a similar, but shorter term, sales contract the Company made at approximately the same time with Southern California Edison.

Q. What do Public Counsel and ICNU propose?

A. Public Counsel and ICNU propose to eliminate this contract on the basis that it is imprudent and not used and useful. *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 35-36.*

Q. Have ICNU and Public Counsel shown the SMUD contract is imprudent?

A. No. The Commission views the prudence issue from the perspective of the information that was known, or should reasonably heave been known, to management at the time it made the utility made the decision to sign the contract.[1] Public Counsel and ICNU supply no information on that issue. While I believe Staff has raised issues related to this contract in other proceedings, no specific Commission decision regarding the contract has been made, due to consideration of various stipulated agreements between parties.

Q. Have Public Counsel and ICNU shown the SMUD contract is not used and useful?

A. No.

[1] *E.g., Utilities & Transp. Comm'n v. Puget Sound Power & Light Co.,* Dockets UE-920433, UE-920499 & UE-921262, 11th Supplemental Order at 20 (September 21, 1993).

Q. What is Staff's recommendation regarding the SMUD contract?

A. Staff believes the adjustment proposed by the Company of the contract sales price to $37 is a reasonable and appropriate response to potential prudence concerns in 2007 for a contract that was entered into in 1987.

4. PCAM

Q. Does ICNU support a PCAM?

A. No.

Q. What is ICNU's first reason for opposing a PCAM for PacifiCorp?

A. According to Mr. Falkenberg, ICNU opposes the PCAM because it allegedly fails to address the Commission's concerns in the 2005 Rate Case. *Direct Testimony of Randall J. Falkenberg, Exhibit ___ (RJF-1T) at 56.*

Q. Is that a valid reason for opposing a PCAM?

A. No, except to the extent PacifiCorp's PCAM includes the cost of new generation. PacifiCorp proposes to include the cost of new generation; Staff does not.

The Commission's first concern was that the PCAM should focus on "short-term costs subject to market volatility or other extraordinary events beyond the Company's control, and should not include costs of new generation."[2] Both Staff's

[2] *Utilities and Transp. Comm'n v. PacifiCorp, d/b/a Pacific Power & Light Co.,* Docket UE-050684, Order 04 at ¶ 99.

and the Company's proposed PCAMs focus on the appropriate short term costs. For example, Staff's proposed PCAM would allow the Company to track the affects on net power supply expense due to variations in hydro-related production, as well as variations in thermal fuel costs, some contract costs, market prices, loads, and forced outages.

The Commission's second concern was that a 90/10 sharing band in the absence of a dead band does "not adequately balance the risks and benefits between shareholders and ratepayers."[3] Both Staff's and PacifiCorp's proposed PCAMs have a substantial dead band before any sharing occurs. Staff witness Mr. Ken Elgin provides testimony on the risk shifting issue.

The third Commission concern was that there needs to be an acceptable cost allocation methodology.[4] The WCA method proposed by PacifiCorp is an acceptable methodology, if the Commission accepts the amendments Staff proposes.

Q. ICNU also criticizes the proposed PCAM on the basis that it contains modeled costs rather than actual costs. *Direct Testimony of Mr. Falkenberg, Exhibit___ (RJF-1T) at 57.* Is this a valid criticism?

A. Staff also had some concerns in this regard. However, as I explained in my direct testimony, Exhibit ___T (APB-1T), page 38, the use of the GRID model to determine "adjusted" actual expenses is a necessary tool at the present time in order to implement a PCAM for the Company. As I explained, the Company should be

[3] *Id.*
[4] *Id.*