Exhibit ___T (APB-1T)
Docket UE-061546
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

TESTIMONY OF

Alan P. Buckley

STAFF OF
WASHINGTON UTILITIES AND
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III. Discussion

A. Western Control Area Allocation Methodology

Q. Please summarize Staff's recommendations regarding the Western Control Area (WCA) methodology.

A. Staff recommends that the Commission approve the use of the WCA methodology, with modifications, for use in determining the Company's rates for electric service in Washington. In addition, Staff recommends that the Commission order a formal five-year review period for purposes of evaluating the effectiveness of that methodology. All other aspects of the WCA methodology would remain as filed, including the resources assigned to the Western control area.

1. Staff's modifications to the WCA methodology filed by PacifiCorp

Q. What modifications to the WCA methodology does Staff propose?

A. Staff proposes two modifications to the WCA methodology filed by the Company. First, Staff proposes a 75 percent demand/25 percent energy allocation factor for fixed production costs, instead of the 100 percent energy allocation proposed by PacifiCorp.

The second modification relates to the way the Company's WCA GRID model carries out system balancing transactions. Staff proposes that a third market

"bubble" be established that provides for sales to the Eastern control area, when and if those sales are determined to be economic.

These are the only two WCA methodology-related adjustments Staff is proposing at this time. However, as discussed below, the WCA methodology allows for further modifications in order to meet both Company and Commission requirements.

a. Adjustment 5.5, Revised CAGW & SO Allocators

Q. What is the basis for Staff's first modification, to change the allocation of fixed production costs to 75 percent demand and 25 percent energy?

A. This modification better aligns the allocation of WCA methodology fixed production costs with the more traditional use of a demand-weighted allocation for fixed cost components in a cost-of-service study. In addition, the demand/energy-based allocation is more in line with how the Company historically allocated fixed production costs and now utilizing in other inter-jurisdictional allocation methodologies.

Q. How does this first modification affect Washington revenue requirements?

A. It mainly affects the production rate base component of the Company's revenue requirement. However, there are additional revenue requirement effects because other allocators are adjusted in response to the changes in rate base. The overall effect of this modification is identified in Mr. Schooley's Exhibit ___ (TES-2),

Adjustment 5.5. There is no change to Washington net power supply expense as a result of this modification.

b. Adjustment 5.4, Miscellaneous Power Supply, Eastern Market Modification

Q. What is the basis for Staff's second modification, to add a third market "bubble"?

A. This modification creates an opportunity for sales from the Western control area along the Bridger path into the Eastern control area, utilizing assumed available transmission capacity during high load hours. Potential sales volume is further limited due to competition from other generators available to the Company's Eastern control area.

The model credits the Western control area for economic sales using a "share the margin" approach. This allows the Western control area to benefit from economic sales to the Eastern control area on an "as available" basis, without receiving an allocation of any additional costs, such as Eastern control area transmission expenses.

This methodology replaces the use of only the Mid-Columbia and COB markets for system balancing transactions, and provides additional benefits to the West (and Washington) through sales to the Eastern control area.

Q. How is this second modification implemented?

A. The method for implementing this second modification is identified in the Company's response to Staff Data Request 88, which is attached as my Exhibit ___ (APB-2). For purposes of this proceeding, I am recommending that the Commission accept this modification to the WCA methodology based on this data request response, recognizing that a number of alternative methodologies could be developed.

Q. What is the effect of the proposed Eastern market "bubble" modification on Washington revenue requirements?

A. This modification affects the calculation of net power costs because it adds an additional market for sales. The effect on the base level of net power supply expense is included as an integral part of the other adjustments to net power supply expense that will be identified later in my testimony.

Q. Are there other potential modifications to the WCA methodology that you investigated?

A. Yes. The proposed WCA methodology includes the costs and benefits associated with the Company's Klamath Hydroelectric Project in Southern Oregon. It is fair to say that there has been some controversy at the local, state, and federal level regarding these projects, including potential requirements as part of any new FERC license. These requirements may affect the economic viability of the project going into the future. Although Staff includes the project's present costs and benefits in the

determination of net power supply expense for this proceeding, Staff reserves the right in subsequent proceedings to further address the prudence of the project, if any additional requirements are imposed on the Company as a result of the continuing re-licensing process.

2. Staff's review of the WCA methodology

Q. In its orders in the 2005 Rate Case, did the Commission state the requirements for an acceptable inter-jurisdictional cost allocation methodology?

A. Yes. In Order 04 in the 2005 Rate Case, the Commission set clear standards on how it would evaluate an allocation methodology for use in Washington. The Commission reiterated these requirements in Order 06 in that docket.

Q. Based on your review of those Orders, what are the key requirements stated by the Commission?

A. In paragraph 48 of Order 04, the Commission states:

> In setting rates, we must follow certain statutory standards. In particular, we must regulate in the public interest, ensuring that in determining the fair value of company property for rate making purposes, i.e., establishing the appropriate rate base, we must determine whether the property is "used and useful for service in this state."

In paragraph 50, the Commission expands on the "used and useful for service in this state" requirement:

> Under our governing statutes, we must find a resource to be used and useful in this state before its costs may be recovered in rates. We interpret the phrase "used and useful for service in this state" to mean benefits to ratepayers in Washington, either directly (e.g., flow of power from a resource

to customers) and/or indirectly (e.g., reduction of cost to Washington customers through exchange contracts or other tangible or intangible benefits).

Q. Does the WCA methodology meet these Commission requirements for an acceptable allocation methodology?

A. Yes. The WCA methodology is a control area-based method. The use of a control area based methodology addresses the identification of costs and benefits associated with direct service to Washington customers.

Q. What is a control area?

A. A control area can be defined in several ways. For example, a control area is defined as:

- An electric system or systems, bounded by interconnection metering and telemetry, capable of controlling generation to maintain its interchange schedule with other Control Areas and contributing to frequency regulation of the Interconnection. (Western Area Power Administration)

or

- A part of a power system or a combination of systems to which a common generation control scheme is applied to match generation and load. (Bonneville Power Administration)

or

- An electric system, consisting of one or more electric utilities, capable of regulating its generation to maintain an interchange schedule with other systems and capable of contributing to the frequency regulation of the regional interconnected grid. (Federal Energy Regulatory Commission)

Q. What is significant about the concept of a control area for purposes of an inter-jurisdictional cost allocation method?

A. The resources within a control area are used to provide benefits to the system within that control area.

Q. How many control areas does PacifiCorp have?

A. PacifiCorp has two control areas: the Eastern control area and the Western control area. Washington is located in the Western control area.

Q. How does the WCA methodology address the requirement that allocated resources be "use and useful for service in this state?"

A. The WCA methodology is a control area based model. It is based on the Company's Western control area, which includes Washington. The WCA method starts with only loads and resources contained within PacifiCorp's Western control area for operational purposes.

Q. How does the WCA methodology address facilities that span both control areas?

A. The WCA allocates to each control area a portion of the costs and benefits associated with certain facilities that span both control areas. For example, the Company's Jim Bridger facility is electrically connected to both the Company's Eastern and Western control areas. The WCA allocates a portion of Jim Bridger to Washington.

Q. In sum, how does the WCA methodology satisfy the "used and useful" requirement?

A. The WCA methodology satisfies the "used and useful" requirement because it isolates the costs and benefits associated with Western control area loads and resources for purposes of determining Washington rates in this proceeding. It is clear that resources within the Company's Western control area provide direct benefits to Washington.

Q. Is it possible for a facility located in the Eastern control area to provide indirect benefits to Washington?

A. Yes. The Commission recognizes that not all costs and benefits need to be direct in order for the costs and benefits to be allocated to Washington. In Paragraph 51 of Order 04 in the 2005 Rate Case, the Commission stated:

> Under either circumstance, the Company must demonstrate a quantifiable benefit to Washington ratepayers. When a facility is actually used to provide service, its costs and benefits can be readily identified and allocated appropriately. The same cannot be said for resources that do not provide direct service or only have occasional or potential value to Washington ratepayers. While such resources may still be compensable under our statutory scheme, they require more complex analysis, which must consider and quantify any indirect benefit sought to be recovered in rates.

Q. Is the WCA methodology capable of addressing such "indirect" benefits?

A. Yes. The WCA methodology is able to allocate the costs and benefits of resources which may provide "indirect" benefits to Washington. While the proposed WCA methodology begins with the allocation of Western control area resources only, it is flexible enough to allow for the future inclusion of other resources upon a showing by the Company that the costs and benefits are associated with direct or indirect service to Washington.

In other words, the WCA methodology recognizes that the Company's system is dynamic. In the future, the Company may acquire resources that serve one, or both, control areas. Or, the Company may acquire additional transmission resources which allow for power transfers not possible under the present system.

The WCA does not preclude such additional resources from being included in rates, so long as the Company can make the necessary showing that such resources provide direct or indirect benefits to Washington. This is consistent with the Commission's statement in Paragraphs 68 and 69 of Order 04 in the 2005 Rate Case:

> We find, however, that the Company must demonstrate tangible and quantifiable benefits to Washington of resources in the system before we will include the resources in rates. The test for including a resource in rates is not whether it is "needed, deliverable and least cost" but rather whether it provides quantifiable direct or indirect benefits to Washington commensurate with its cost.
>
> The Company can demonstrate this through historical system operation or modeling of the system showing that Eastside plant costs added to Washington rates would be offset by reductions to other cost categories (e.g., power costs), such that overall costs to Washington ratepayers would be no more than without the Eastside resources.

Q. How can such indirect benefits be established using the WCA methodology?

A. There are two ways. First, a party can propose such indirect benefits in a rate case or other relevant proceeding, and the Commission can decide if the resource in question meets the Commission's standard for including the resource in setting Washington rates.

Second, Staff proposes the Commission establish a Monitoring Committee. Ideally, this forum will allow for the consensus recommendations to the Commission regarding amendments to the WCA methodology. The Committee would consist of

interested Washington parties. The Committee could make recommendations in subsequent rate cases or other relevant Commission proceedings.

Q. Has the Commission stated any requirements for a cost allocation method related to PacifiCorp's Western control area hydro resources?

A. Yes. In Paragraph 70 of the Commission's Order 04 in the 2005 Rate Case, the Commission said:

> We expect the Company to include the full value of hydroelectric resources in the Western control area in any inter-jurisdictional cost allocation model it develops for Washington.

Q. Does the WCA methodology comply with the Commission's "full value" requirement?

A. Yes. The WCA methodology assigns costs and benefits of Western control area hydroelectric resources only to those jurisdictions in the Western control area, including Washington.

Q. Does the WCA methodology allow for the efficient implementation of a power cost adjustment mechanism?

A. Yes. Variable costs and benefits of the resources contained in the WCA can readily be tracked for purposes of implementing a PCAM.

However, at present, it is necessary to use what I call a "pseudo actual" methodology for some costs and benefits. Because the Company's accounting system does not generally distinguish between day-to-day system transactions on a

control area basis, it is necessary to use representative numbers where actual numbers are not available.

Q. The Commission stated in Paragraph 70 of Order 04 in the 2005 Rate Case, that the Hybrid Model identified in that case "holds promise." Is the WCA methodology appropriate in light of that statement?

A. Yes. The WCA meets the needs of Washington, and it meets the Commission's allocation method requirements. It is therefore unnecessary to adopt a Hybrid Model of the sort being evaluated in other jurisdictions.

In other words, the WCA methodology provides a reasonable basis on which to determine rates. It is easy to understand, efficient to implement, and flexible. These characteristics are important in order to have a dynamic model that addresses ongoing changes in long-term purchase and sales contracts, new resource additions, and system balancing requirements under a variety of water year conditions.

In addition, in my opinion, the Hybrid Model is one step down the "slippery-slope" of adding significant complexity for the sake of identifying and capturing a limited level of potential incremental costs and benefits.

In short, the WCA methodology meets the present needs of Washington and the Company, and it satisfies the Commission's requirements of an acceptable allocation model, without the additional burden and conflicts associated with the Hybrid Model.

Q. Please elaborate on your recommendation that the Commission order a set review period for the WCA methodology.

A. The WCA methodology is anticipated to be a permanent allocation solution for Washington and the Company. However, the Commission should establish a formal five-year review period to provide a specific, known period in which the WCA methodology can be formally evaluated and reviewed by all interested parties.

The Company should initiate the process with a report addressing the effectiveness of the WCA methodology as a tool for setting electric service rates in Washington.

The five-year evaluation period balances the need to have a methodology in place for a sufficient period of time, and the timeliness of any evaluation of the methodology.

The evaluation period does not mean that no changes can be made to the WCA methodology after that time. Of course, the Commission retains its discretion to require the use of a different methodology, or make changes to the WCA in any appropriate proceeding.

Q. Is the WCA methodology based on how the Company operated its system before it merged with Utah Power and Light Company?

A. No, and it should not be. The WCA methodology is based on the manner in which the Company's system is operated today (e.g., Eastern and Western control areas with limited interconnection capability). The WCA methodology does not take into

consideration historical configurations of the Company either pre- or post-Pacific Power and Utah Power merger.

Consequently, there are certain resources whose costs and benefits may have been historically included in developing Washington rates, but are not initially included in the WCA methodology as proposed. However, the WCA methodology allows for their inclusion for purposes of determining Washington rates, if they meet the Commission's standards for allocating resources to Washington.

Q. Is the WCA methodology perfect?

A. No. However, I believe there is no perfect methodology for allocating the costs and benefits associated with providing electric service by a multi-jurisdictional electric utility. The WCA methodology does, on balance, result in a reasonable estimate of the fixed and variable operating costs and benefits associated with the portfolio of resources directly serving Washington under a variety of water conditions for purposes of setting rates.

For example, the WCA methodology may not capture all of the costs and benefits of the Company's system operations. By initially isolating the Western control area resources, the model used for the methodology may not capture some incremental costs and benefits that are present through the Company's operation of the two separate control areas, even under the current limited transfer capability between control areas. However, it is my opinion that these short-comings are minimal compared to the benefits of having a workable methodology.

Finally, the WCA methodology allows the flexibility to amend the model or to identify and include additional costs of resources that may indirectly serve Washington and have been determined to have positive benefits. In fact, Staff's second modification to the Company's model, the addition of a market "bubble," recognizes the possibility of system balancing transactions to the Eastern control area and it is an example of how the WCA methodology can be modified.

In sum, the WCA methodology represents a balanced and workable solution to a long standing roadblock for determining an appropriate level of the costs PacifiCorp incurs to serve Washington. The WCA methodology also provides an acceptable platform for use in implementing a power cost adjustment mechanism for the Company.

B. Net Power Supply Expense Adjustments 5.4 and 5.5

1. Summary of Staff's power supply expense adjustments

Q. Please summarize Staff's recommendations regarding the appropriate level of net power supply expense for determining rates for electric service for PacifiCorp in Washington.

A. Staff recommends five changes to the Company's proposed net power supply expenses, including incorporating the results on net power supply expense of the new market "bubble" modification to the WCA methodology, which I discussed earlier.

Four changes relate to Adjustment 5.4, Miscellaneous Power Supply. Three of these changes relate to corrections and a load update: 1) A correction to remove certain transmission costs from the Western control area; 2) A correction to remove costs associated with spinning and regulating reserve requirements for the Eastern control area; and 3) Use of a load forecast that matches the power supply rate year. The fourth change relates to the "Eastern Market Modification": 4) The impact of Staff's proposed change to the WCA methodology to take into account certain sales to the Eastern Control Area.

The fifth change relates to Adjustment 5.6, Water Year Adjustment: 5) A water year adjustment that eliminates extreme water years from the calculation of a base level of net power supply costs in anticipation of implementing a PCAM.

Q. Have you prepared an exhibit that summarizes the effect on net power supply expense of these five changes?

A. Yes. The effect on net power supply expense is summarized in my Exhibit ___ (APB-3). I combined the first three changes listed above with the effect of Staff's recommended Eastern market "bubble" modification to the WCA methodology, and ran them through the GRID model and the subsequent net power supply calculation together as a group. As shown on lines 3 and 4 of my exhibit, collectively, these changes result in a $1,527,176 decrease in base level net power supply expense for Washington customers.[1] Of this amount, $480,136 is due to the first three changes I

[1] These changes implemented in Staff witness Mr. Schooley's Exhibit ___ (TES-2), page 10, Adjustment 5.4, Misc. Power Supply.

listed above, and $1,047,040 is due to adding the potential for Eastern control area sales to the WCA methodology.

The effect of the Adjustment 5.6, Staff's Water Year Adjustment, is an additional decrease in Washington base level net power supply expense of $1,540,683. This adjustment is a necessary part of Staff's support for the adoption of a PCAM for PacifiCorp.

Altogether, these adjustments lower Washington's overall base level net power supply expense by $3,067,859 to $92,385,102 from the $95,452,961 amount proposed by the Company in its direct case. This lower net power supply expense level also forms the base level net power supply expense for purposes of determining deferrals or credits under Staff's proposed PCAM.

2. Adjustment 5.4, Miscellaneous Power Supply

Q. Please elaborate on the first two changes in Adjustment 5.4, which you identified as "corrections" to the Company's net power supply calculations.

A. First, the Company's calculation of net power supply expense for Washington incorrectly included transmission cost forecasts related to certain transmission service outside the Western control area. Consequently, Staff removed costs related to service identified as "Mead/Phoenix" and "Sierra Pacific" from the Western control area model, as well as the costs associated with an Idaho Power contract providing dynamic overlay support.

Second, Staff removed costs associated with a GRID modeling error, in which the Company had mistakenly included in Western control area costs amounts associated with spinning reserve and regulating reserve requirements for the Eastern control area.

The Company has acknowledged these corrections in its responses to intervenor and Staff data requests.

Q. Please describe the third change in Adjustment 5.4, related to the load forecast update.

A. As filed by the Company, the retail load used as input into the GRID model for purposes of deriving net power supply expense represents Company loads through March 31, 2006. This third change reflects my use of an updated load forecast that more closely matches the loads with the resources and other input into the GRID model for purposes of determining the base level of net power supply expense.

The Company expended significant effort to develop this update. The Company has developed no further updates because the Company does not anticipate a rate year beginning later than April 2008. However, a further update may be possible as part of a compliance filing by the Company to be consistent with the actual rate year which may be adopted by the Commission.

3. Adjustment 5.6, Water Year Adjustment

Q. What is the purpose of Staff's Water Year Adjustment?

A. This adjustment removes the net power supply expense uncertainty associated with extreme, or "outlier" water years from the calculation of the base level net power supply costs, which are then used to support the implementation of a PCAM for the Company.

Q. Why is it appropriate to make this adjustment?

A. In prior proceedings, the Company filed its proposed net power supply costs based on running the power cost models over a number of water years and then calculating a "normalized" level of net power supply expense for purposes of ratemaking. The number of water years and their timing has been a contentious issue in many past rate proceedings.

In this filing, the Company is using a rolling 40-year average of the most recently available hydro-electric data. This approach would be acceptable, if the Company where not also proposing a power cost adjustment mechanism. In other words, the Company's calculation of normalized net power supply expense using a broad number of water year conditions is entirely appropriate in an environment of limited general rate case filings that has been typical of the past. Rates were set using conditions reflecting a collective probability that a range of actual power supply expense levels would be experienced over time, and thus actual under-recovery of costs in some years would be balanced by over-recovery in others.