

McDowell & Rackner PC



AMIE JAMIESON
Direct (503) 595-3927
amie@mcd-law.com

October 29, 2009

VIA ELECTRONIC FILING AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket UE 210

Enclosed for filing in the above docket are an original and five copies of the Joint Reply Testimony in Support of Revenue Requirement Stipulation. A copy of this filing has been served on all parties to this proceeding as indicated on the attached Certificate of Service.

Very truly yours,

A handwritten signature in black ink, appearing to read "Amie Jamieson".

Amie Jamieson

cc: UE 210 Service List

1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in
3 Docket UE 210 on the following named person(s) on the date indicated below by email and
4 first-class mail addressed to said person(s) at his or her last-known address(es) indicated
5 below.

6 G. Catriona McCracken
Citizens' Utility Board
7 catriona@oregoncub.org

Robert Jenks
Citizens' Utility Board
bob@oregoncub.org

8 Gordon R. Feighner
Citizens' Utility Board
9 gordon@oregoncub.org

Greg Addington
Executive Director
Klamath Water Users Association
greg@cvcwireless.net

10 Deborah Garcia
11 Oregon Public Utility Commission
P.O. Box 2148
12 Salem, OR 97301
Deborah.garcia@state.or.us

Jason Jones
Assistant Attorney General
1162 Court St. NW
Salem, OR 97301-4096
Jason.w.jones@state.or.us

13 Randall Falkenberg
14 RFI Consulting, Inc.
PMB 362, 8343 Roswell Road
15 Sandy Springs, GA 30350
consultrfi@aol.com

Melinda Davison
Davison Van Cleve PC
333 SW Taylor - Ste 400
Portland, OR 97204
mjd@dvclaw.com

16 Richard Lorenz
17 Cable Huston Benedict et al
rlorenz@cablehuston.com

Larry Cable
Cable Huston Benedict et al
lcable@cablehuston.com

18 Douglas C. Tingey
19 Portland General Electric Company
doug.tingey@pgn.com

Randy Dahlgren
Portland General Electric Company
pge.opuc.filings@pgn.com

21
22
23
24
25
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Kurt J. Boehm
Boehm Kurtz & Lowry
36 E. Seventh St. – Ste 1510
Cincinnati, OH 45202
kboehm@bklawfirm.com

Michael L. Kurtz
Boehm Kurtz & Lowry
36 E. Seventh St. – Ste 1510
Cincinnati, OH 45202
mkurtz@bklawfirm.com

DATED: October 29, 2009



Amie Jamieson
Of Attorneys for PacifiCorp

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 210

In the Matter of:

PacifiCorp d/b/a Pacific Power's Request for
a General Rate Increase in the Company's
Oregon Annual Revenues

STAFF-PACIFICORP-CUB-KROGER-KWUA

JOINT REPLY TESTIMONY IN SUPPORT OF
REVENUE REQUIREMENT STIPULATION

REVENUE REQUIREMENT WITNESSES:
DEBORAH GARCIA, DUSTIN BALL, BRYCE DALLEY, JOELLE STEWARD, BOB
JENKS, KEVIN HIGGINS, and GARY SALEBA

COST OF CAPITAL WITNESSES:
STEVE STORM, SAM HADAWAY, and BRUCE WILLIAMS

October 2009

1 **Q. Who is sponsoring this testimony?**

2 A. This testimony is jointly sponsored by PacifiCorp (or the “Company”), Staff of the Public
3 Utility Commission of Oregon (“Staff”), the Citizens’ Utility Board of Oregon (“CUB”),
4 Fred Meyer Food Stores and Quality Food Centers, Divisions of The Kroger Co.
5 (“Kroger”), and Klamath Water Users Association (“KWUA”). In this Joint Testimony,
6 the parties are referred to collectively as the “Parties.”

7 **Q. Who are the witnesses sponsoring this testimony?**

8 A. Sponsoring witnesses are Deborah Garcia, Dustin Ball, Bryce Dalley, Joelle Steward,
9 Bob Jenks, Kevin Higgins, and Gary Saleba. These witnesses previously filed Joint
10 Testimony in Support of Revenue Requirement Stipulation (“Stipulation”) in this
11 proceeding. In addition, Steve Storm, Sam Hadaway, and Bruce Williams are
12 sponsoring testimony on cost of capital issues. Steve Storm’s qualifications are set forth
13 at Staff/801; Sam Hadaway’s qualifications are set forth at PPL/200; and Bruce
14 Williams’ qualifications are set forth at PPL/300.

15 **Q. What is the purpose of your testimony?**

16 A. Our testimony responds to the Response Testimony in Opposition to the Stipulation filed
17 by Michael B. Early, Ellen Blumenthal, and Michael P. Gorman on behalf of the
18 Industrial Customers of Northwest Utilities (“ICNU”). Our testimony explains why the
19 Commission should reject ICNU’s arguments against the Stipulation and should approve
20 the Stipulation, as it will result in just and reasonable rates.

21 **Q. How is your testimony organized?**

22 A. We first address the standard the Commission will use to determine whether it should
23 approve the Stipulation. We then respond to each ICNU witness in turn. First, we

1 respond to Mr. Early’s testimony arguing that current economic conditions militate
2 against increasing rates, improperly characterizing the Stipulation as a “black box”
3 settlement, alleging that the Stipulation will allow PacifiCorp to recover costs for rate
4 base that will not be used and useful, and arguing that the Stipulation should be
5 conditioned on a new proposal by ICNU for renewable energy credit (“REC”) reporting
6 requirements.

7 Second, we respond to Ms. Blumenthal’s testimony that includes adjustments to
8 non-union wages and incentive pay, raised for the first time in response to the Stipulation
9 and to her advocacy for a change in the Company’s Oregon labor cost allocation
10 percentage.

11 Third, the cost of capital witnesses respond to Mr. Gorman’s recommendation
12 that the Commission adopt ICNU’s originally proposed return on equity (“ROE”) and
13 capital structure and reduce the rate of return in the Stipulation.

14 Finally, CUB explains how it determined that the Stipulation would result in just
15 and reasonable rates, in light of the fact that CUB co-sponsored the reply testimony of
16 witnesses Blumenthal and Gorman prior to entering into the Stipulation.

17 **Standard Applicable to Stipulation**

18 **Q. What is the standard by which the Commission reviews stipulations?**

19 A. When evaluating a stipulation, it is our understanding that the Commission will approve
20 it if it is supported by the evidence and results in just and reasonable rates. Docket UE
21 170, Order 05-1050 at 7 and 29.

22 **Q. Does the Commission need to approve specific methodologies or adjustments in
23 order to approve a stipulation?**

1 A. No. The Commission explicitly found in its recent Trojan order that the validity of rates
2 rests on their overall reasonableness, not the reasonableness of theories or methodologies
3 used to calculate the rates. The Commission noted:

4 [T]he validity of the determined rates rests on the reasonableness
5 of the overall rates, not the theories or methodologies used or
6 individual decisions made. As the United States Supreme Court
7 explained in *Hope*, if the total effect of the rate order is not unjust
8 and unreasonable, “[t]he fact that the method employed to reach
9 that result may contain infirmities is not then important.” The
10 Oregon Supreme Court has also recognized the holistic nature of
11 ratemaking, stating that “it is the end result of an order of a
12 regulatory authority which determines the question as to its
13 validity and not the processes by which the authority reached the
14 result.

15 Order No. 08-487 in Docket DR 10/UE 88/UM 989 at 7-8. (Citations omitted.)

16 **Q. Does the Stipulation meet this standard?**

17 A. Yes. As described in detail in the Stipulation and supporting testimony, this agreement is
18 the result of the Parties’ extensive efforts investigating and analyzing every major issue
19 in the Company’s case and concluding that the agreed upon revenue requirement is
20 reasonable and will result in rates that are just and reasonable. The evidence in the record
21 supports this conclusion. Because the Stipulation produces just and reasonable rates, the
22 methodologies or specific adjustments used by the Parties to reach the final revenue
23 requirement are irrelevant to its final approval.

24 **Q. Do all of the Parties sponsor testimony responding to ICNU’s specific adjustments?**

25 A. No. Kroger and KWUA did not sponsor opening testimony in this proceeding relating to
26 the issues raised by ICNU in the testimony in opposition to the Stipulation. Therefore,
27 only Staff, PacifiCorp, and CUB witnesses sponsor the remainder of the testimony

1 addressing those specific issues. Kroger and KWUA remain fully supportive of the
2 Stipulation and believe that the Stipulation will result in just and reasonable rates.

3 **Response to Testimony of Michael B. Early**

4 **Q. What arguments does Mr. Early raise to contest the validity of the Stipulation?**

5 A. Mr. Early raises several arguments. First, he argues that during the current economic
6 downturn it is inappropriate to increase PacifiCorp's rates. Second, Mr. Early criticizes
7 the Stipulation because he claims it is a "black box" agreement that does not adequately
8 explain the basis for the final revenue requirement amount. Third, Mr. Early challenges
9 the agreement's rate base amount because he claims that it includes resources that are not
10 presently used and useful for Oregon customers. Fourth, Mr. Early proposed that the
11 Commission condition the Stipulation on the Company placing the gain from the sale of
12 Oregon allocated RECs into a balancing account to refund to customers.

13 **Q. How do you respond to Mr. Early's first argument that raising rates is
14 inappropriate in light of the current economic climate?**

15 A. The Parties recognize that the current economic climate has placed significant financial
16 pressure on the Company's customers. The terms of the Stipulation reflect this reality.
17 Although the Company had not filed a general rate case in three years prior to filing this
18 rate case, it accepted many of the adjustments proposed by Staff, CUB, and ICNU, and
19 lowered its requested rate increase from 9.1 percent to 4.6 percent—nearly one-half of its
20 original request. The compromises reflected in the agreement were made with a full
21 understanding of the current economy. Moreover, while Mr. Early argues that the poor
22 economic outlook undermines the stipulated rate increase, ICNU's witness Mr. Gorman
23 argues that the economic outlook is improving in order to justify his lower proposed

1 return on equity. *See* ICNU/500, Gorman/4, ll. 15-16. These contradictory statements
2 undermine Mr. Early's argument that current economic conditions call for a rejection of
3 the Stipulation.

4 **Q. Mr. Early testifies that the surcharge reflected in PacifiCorp's recent 2008 tax**
5 **report filing shows that PacifiCorp must be overearning. Please respond.**

6 A. Mr. Early's testimony, which is based upon speculation rather than actual facts, should be
7 disregarded as unsubstantiated. On its face, the argument is inapplicable because the tax
8 report relates to 2008 and the test period in this case is 2010. The only evidence in this
9 case on PacifiCorp's projected earnings for 2010 is in Mr. Dalley's testimony. This
10 testimony, which is not contradicted on the record, demonstrates that PacifiCorp will
11 underearn at its current rate levels.

12 **Q. Please explain Mr. Early's argument that the Stipulation is an impermissible "black**
13 **box" settlement.**

14 A. Mr. Early argued that the Stipulation did not explain how the parties reached the agreed
15 upon revenue requirement, and therefore ICNU was unable to ascertain whether the
16 agreed upon adjustments accept or reject specific adjustments proposed by Staff and
17 intervenors. Because of the lack of specific adjustments, ICNU argued that they have "no
18 real idea how the [revenue requirement] number was obtained." He also argued that the
19 settlement must specifically justify every component of the rate increase. Unless all
20 major parties are in agreement, Mr. Early argued that so-called "black box" settlements
21 are inappropriate.

22 **Q. How do you respond to Mr. Early's argument that the Commission should reject the**
23 **Stipulation because it is a "black box" settlement?**

1 A. The Parties dispute his characterization of the agreement as a “black box.” The
2 Stipulation and joint testimony filed by the parties provides significant explanation of the
3 overall revenue requirement and describes the specific adjustments to the Company’s
4 proposed revenue requirement. In addition, Exhibit A of the Stipulation provides a
5 results of operations summary view of each of the stipulated adjustments.

6 **Q. Has the Commission accepted stipulations containing a similar level of detail**
7 **previously?**

8 A. Yes, on numerous occasions. *See, e.g.*, Order No. 07-015 in Docket UE 180. Indeed,
9 ICNU was a signatory to the stipulation in the Company’s last rate case, UE 179, that
10 provided similar detail on the parties’ agreement with respect to specific adjustments as
11 this Stipulation does. *See* Order No. 06-530 in Docket UE 179.

12 **Q. Does the Commission require that a stipulated rate increase be supported by**
13 **specific adjustments and methodology?**

14 A. No. As the Parties discussed above, the Commission requires that rates be reasonable on
15 an overall basis, not that the Commission must approve every adjustment that resulted in
16 the rates. While not relevant in this particular case, the Parties note that even if the
17 Stipulation were a purely “black box” settlement, Mr. Early’s argument provides no basis
18 for the Commission to reject the Stipulation.

19 **Q. Do the Parties have any other concerns with Mr. Early’s “black box” argument?**

20 A. Yes. From a policy perspective, rejecting a settlement simply because one party does not
21 believe it describes in adequate detail each adjustment made or method used would
22 effectively preclude settlement in many cases. General rate cases involve many parties
23 representing many different interests. When reaching a settlement, each party may agree

1 to a final revenue requirement amount but may do so for different reasons. If the
2 Commission were to require settlements to include not only agreed-upon results but also
3 agreed-upon methodologies, specific adjustments, and reasoning, settlements would be
4 much more difficult, if not impossible. Adopting ICNU's proposed standard would
5 undermine the Commission's long-standing policy encouraging parties to reach
6 settlement.

7 **Q. Does Mr. Early also object to the Stipulation on the basis that it allows the**
8 **Company to recover costs related to property that is not presently used and useful?**

9 A. Yes. Mr. Early states that Staff recommended a number of miscellaneous rate base
10 adjustments in opening testimony, described as adjustment "S-8." Mr. Early contends
11 that the entire S-8 adjustment was not included in the Stipulation, and therefore the
12 Stipulation will allow the Company to recover "illegal costs" that are not related to
13 property that is used and useful.

14 **Q. Did ICNU propose an adjustment to the Company's proposed rate base in its**
15 **original testimony in this proceeding?**

16 A. No. ICNU never proposed any rate base adjustment before the Stipulation was filed.
17 Mr. Early's testimony relies upon Staff's miscellaneous rate base adjustment to argue that
18 the Stipulation will improperly recover costs that will not be in rate base.

19 **Q. Does ICNU contend that any large capital projects will be improperly included in**
20 **rate base as a result of the Stipulation?**

21 A. No. ICNU's rate base argument relates only to miscellaneous rate base items included in
22 Staff adjustment S-8. These rate base items consist primarily of smaller projects that are

1 placed into service in multiple months. ICNU has never raised any issue in this case with
2 respect to the prudence or timing of the Company's new generation resources.

3 **Q. Did PacifiCorp accept Staff's miscellaneous rate base adjustment in reply**
4 **testimony?**

5 A. No. Bryce Dalley testified to the Commission law and precedent that the Company
6 believes supports inclusion of the miscellaneous rate base items identified in Staff's S-8
7 adjustment in rates. PPL/706, Dalley/17-23. The Company continues to believe that its
8 position in reply testimony is reasonable and consistent with Commission precedent. Mr.
9 Dalley further testified that Staff's proposed rate base adjustments would result in net
10 plant-in-service during the 2010 test year that would be lower than plant-in-service in
11 June 2009. PPL/706, Dalley/23.

12 **Q. Does Staff believe that the Stipulation addresses the concerns raised in its**
13 **miscellaneous rate base adjustment?**

14 A. Yes. As a part of the Stipulation, the Parties agreed to reflect a reduction in the level of
15 the Company's rate base that satisfactorily addresses Staff's concerns that all pro forma
16 additions to rate base meet the requirements of ORS 757.355. Using Staff's approach,
17 the stipulated reduction to revenue requirement related to miscellaneous rate base
18 exceeds the total revenue requirement associated with Staff's rate base categories
19 identified as "Not in service by dates rates take effect" and "not allowed in rate base."
20 See Exhibit Staff/103. After reviewing the Company's reply testimony, Staff corrected
21 proposed adjustments to the above two categories, and in the context of a settlement of all
22 contested issues, Staff agreed to reduce its proposed adjustment to the category

1 “Unknown in-service” date. As a result, the stipulated rate base is consistent with the
2 requirements of ORS 757.355.

3 **Q. Is there further evidence that undermines Mr. Early’s contention that the stipulated**
4 **revenue requirement contains costs related to property that will not be used and**
5 **useful in the rate effective period?**

6 A. Yes. As shown in Table 1 below, the Stipulation results in an Oregon-allocated net plant-
7 in-service of \$3.33 billion in 2010.

8 **Table 1**

Oregon-Allocated Net Electric Plant in Service (EPIS) Comparison (\$000)			
	(1)	(2)	(2) - (1)
	Stipulation (Exhibit A)	Forecast Dec. 2009 Ending Balance	Variance
Oregon-Allocated Net EPIS*	3,332,762	3,382,450	49,688

9
10 As reflected in the Company’s filing, its Oregon-allocated net plant-in-service at the
11 beginning of 2010 is expected to be \$3.38 billion—almost \$50 million *higher* than the
12 Parties agreed to include in rates in the Stipulation. This shows that the stipulated level
13 of rate base is reasonable and rates will only include costs related to rate base that is
14 indisputably used and useful to customers. Mr. Early’s argument should be disregarded.

15 **Q. ICNU recommends that the Commission impose a condition on the Stipulation**
16 **requiring the Company to record the sale of Oregon-allocated RECs in a balancing**
17 **account. Did ICNU previously make such a proposal in this case?**

18 A. No. Staff made a similar proposal in its testimony, to which PacifiCorp responded in its
19 reply testimony.

1 **Q. In light of the Commission’s recently adopted rules on RECs, is a balancing account**
2 **necessary to achieve transparency and accountability for REC sales?**

3 A. No. The Oregon rules implementing the renewable portfolio standard (“RPS”) that were
4 adopted in August 2009 require detailed reporting on the number and cost of RECs
5 forecast, issued, banked, retired, and sold. *See* OAR 860-083-0350 (Compliance Reports
6 by Electric Companies and Electricity Service Suppliers) and OAR 860-083-0400
7 (Implementation Plans by Electric Companies). Additionally, the rules require that if the
8 Company plans to sell RECs included in Oregon rates, it must demonstrate that the sale
9 would “appropriately balance cost and risk.” As such, the Oregon rules already contain
10 sufficient requirements that will provide full transparency and accountability for Oregon-
11 allocated RECs.

12 **Q. ICNU references the recent settlement in the Company’s Washington general rate**
13 **case that includes reporting requirements related to RECs. Is this comparison**
14 **relevant?**

15 A. No. PacifiCorp’s recently filed stipulation in Washington addresses a different case
16 implicating different state laws and regulations, different test period, and different parties.
17 The REC-related settlement term agreed upon in that stipulation is not comparable to
18 what ICNU advocates in this proceeding.

19 First, the Washington stipulation requires REC reporting, not the tracking of REC
20 sales to a balancing account.

21 Second, the Oregon RPS rules already require extensive reporting related to RECs
22 that provide full transparency for the number and disposition of eligible RECs in rates.

1 The Washington rules implementing that state's RPS do not include similar reporting
2 requirements.

3 Third, the Washington RPS allows for a limited ability to bank RECs for use in
4 meeting the standard. WAC 480-109-020(2) allows that only RECs "produced during the
5 target year, the preceding year or the subsequent year may be used to comply" with the
6 RPS. This is in contrast to the Oregon RPS that allows for banking of all RECs produced
7 after January 1, 2007. As a result of this difference, the Company will not sell any
8 Oregon-eligible RECs in 2010 and will cease to sell any Washington-eligible RECs in
9 2011. The stipulation in Washington recognizes that it may be unnecessary to continue
10 the reporting requirements in the future.

11 **Response to Testimony of Ellen Blumenthal**

12 **Q. Please explain Ms. Blumenthal's proposed adjustment relating to non-union wages.**

13 A. For the first time in this proceeding, Ms. Blumenthal proposed to exclude the escalation
14 of wages for all non-union employees. Ms. Blumenthal's only justification for this
15 proposal is the ailing economy.

16 **Q. Do the Parties agree with the adjustment relating to non-union wages?**

17 A. No. The Parties urge the Commission to disregard Ms. Blumenthal's argument. This is a
18 new adjustment raised by ICNU for the first time. Ms. Blumenthal's previous testimony
19 relating to wages and salaries did not propose this adjustment, so when the Parties
20 negotiated the settlement this was not an issue. Therefore, it would have been impossible
21 for the Parties to have considered her proposal in reaching the settlement. For this reason
22 alone, the Commission should reject Ms. Blumenthal's argument as untimely. There is
23 no evidence to support Ms. Blumenthal's change in positions. Moreover, as ICNU

1 witness Mr. Gorman pointed out, the economy is arguably better now than it was when
2 the case was filed. Therefore, the proposed adjustment is groundless.

3 **Q. Mr. Dalley, is there another reason why the Commission should reject this**
4 **adjustment?**

5 A. Yes. Ms. Blumenthal's testimony does not accurately describe the adjustment.

6 Ms. Blumenthal's workpapers show that she not only removed the non-union wage and
7 salary increase that occurred in January 2009, but she also removed the increase that
8 occurred in January 2008. Her testimony inaccurately states only that she removed the
9 3.8 percent increase, when in fact she removed increases dating back to the historical
10 base period.

11 **Q. How is it that Ms. Blumenthal's proposed adjustment removes increases dating**
12 **back to the historical period?**

13 A. The Company used the historical base period, the twelve months ending June 2008, to
14 forecast to the 2010 test period. Ms. Blumenthal removed the wage and salary increases
15 that occurred in January of 2008 and 2009. The result of Ms. Blumenthal's methodology
16 is that she has removed all wage and salary increases from July 2007, the beginning of
17 the base period, to December 2010, the end of the test period—a total of 42 months.

18 Ms. Blumenthal's testimony provides no basis for removing wage and salary increases
19 dating back to July of 2007, especially considering the Company proposed no increase to
20 non-union wages and salaries in the 2010 test year.

21 **Q. Please explain Ms. Blumenthal's proposed adjustment regarding incentive pay.**

22 A. Again, for the first time, Ms. Blumenthal proposes to remove all bonus and incentive
23 compensation from the case. As is the case with her non-union wage increase

1 adjustment, Ms. Blumenthal's only justification for this adjustment is her perception of
2 the state of the Oregon economy.

3 **Q. Do the Parties accept this proposed adjustment?**

4 A. No. In previous testimony, Ms. Blumenthal proposed removing one-half of the bonuses
5 and incentive pay. She now proposes removing all bonus and incentive pay. Again,
6 when the Parties negotiated the settlement, they did so with ICNU's proposed
7 adjustments in mind—not anticipating that ICNU would substantially modify its
8 proposals after the settlement was finalized. Essentially, ICNU has argued that the
9 Parties should have accepted its proposed terms even though those terms did not exist at
10 the time the agreement was made. As with the adjustment for non-union wages, Ms.
11 Blumenthal's changing position is untimely and should be rejected.

12 **Q. Does the Stipulation account for bonus and incentive compensation?**

13 A. Yes. The Stipulation generally reflected Ms. Blumenthal's previous adjustment, as it was
14 nearly identical to Staff's proposed adjustment for bonus and incentive compensation.
15 Thus, even though the Stipulation reflects ICNU's original proposal, ICNU now objects
16 to the agreement because ICNU has now increased its adjustment. ICNU's out-of-time
17 change in position provides no basis for rejecting the Stipulation.

18 **Q. How do you respond to the argument that Oregon's economy justifies the removal
19 of all bonus and incentive compensation?**

20 A. Again, this is unpersuasive. ICNU provides no evidence that the economic picture has
21 changed from when ICNU proposed removal of one-half of the bonuses. ICNU pointed
22 to nothing that occurred since its earlier testimony that necessitates this new proposal.

1 **Q. Ms. Blumenthal proposed two major labor-related adjustments in her original reply**
2 **testimony, one on staffing levels and another on the Oregon labor allocation factor.**
3 **Staff testified in the Parties' Joint Testimony that it considered but discounted these**
4 **proposals in the Stipulation because they appeared to be based upon incorrect**
5 **assumptions. Did Ms. Blumenthal make corrections to these adjustments in her**
6 **most recent testimony?**

7 **A.** Yes. Ms. Blumenthal withdrew the staffing level adjustment. She substantially reduced,
8 but did not withdraw, her adjustment related to the Oregon labor allocation factor. The
9 result is that Ms. Blumenthal has substantially reduced the adjustments she originally
10 proposed in the case. The A&G adjustment in the Stipulation reasonably accounts for
11 Ms. Blumenthal's original adjustments, especially at the corrected and reduced levels.

12 **Q. Please explain Ms. Blumenthal's adjustment to Oregon-allocated wages and**
13 **salaries.**

14 **A.** Ms. Blumenthal argues that based on the estimated Oregon-allocated wage and salary
15 data provided by the Company, Oregon should be allocated 27.8 percent of total
16 Company payroll, compared with the 29.5 percent overall Oregon allocation used by the
17 Company. Ms. Blumenthal argues that the revenue requirement in the Stipulation is
18 overstated by approximately \$8.4 million on an Oregon-allocated basis as a result.

19 **Q. Do you agree with Ms. Blumenthal's argument that Oregon should be allocated no**
20 **more than 27.8 percent of total payroll?**

21 **A.** No. As Mr. Dalley explains, Ms. Blumenthal's Response Testimony analysis contains
22 significant flaws.

23 **Q. Mr. Dalley, what flaws does Ms. Blumenthal's analysis contain?**

1 A. There are two major flaws. The first major flaw is that Ms. Blumenthal's argument that
2 the Company does not use actual data to set labor costs is incorrect. After ICNU and
3 CUB filed their initial testimony on August 14, 2009, PacifiCorp informed Ms.
4 Blumenthal in supplemental responses to ICNU data requests 9.8 and 9.33, related to
5 Oregon-allocated wages and salaries, that the Company does not separate wages and
6 salaries from other labor costs when processing the salary and labor allocations. The
7 Company's accounting system does not run labor allocation settlements for wages and
8 salaries alone—it does so on a total labor cost basis (*i.e.*, with benefits). As a result, the
9 Company cannot separate its actual Oregon-allocated labor costs into labor cost
10 components, such as wages and salaries. In an effort to accommodate ICNU's request,
11 however, the Company provided estimates of the Oregon-allocated wages and salaries
12 separate from total labor costs. The Oregon-allocated total labor costs relied on by the
13 Company in this filing, however, are not estimates. This was Ms. Blumenthal's first
14 major flaw.

15 **Q. Mr. Dalley, what is the overall Oregon allocation for total labor costs?**

16 A. As I explained in my reply testimony, the overall Oregon allocation is 29.5 percent.
17 PPL/706, Dalley/43. This amount is consistent with the Company's final labor allocation
18 percentages for 2006, 2007, and 2008 as reported in the Company's annual Results of
19 Operations Reports. Ms. Blumenthal's proposed Oregon allocation is significantly lower
20 than recent actual results, as shown below.

1

Table 2

Year	Final Oregon Alloc. %
2006 – Actual	30.59%
2007 – Actual	30.10%
2008 – Actual	30.37%
2010 Company Filed Position	29.50%
2010 ICNU Response to Stipulation	27.8%

2 **Q. Mr. Dalley, please respond to Ms. Blumenthal's argument that labor costs have not**
3 **been cleared from the clearing account for Oregon operations.**

4 **A.** Labor and benefits are charged into the clearing account FERC 707 and are cleared out to
5 a zero balance monthly. Table 3 below shows the expenses charged to the account in
6 2007 and 2008, and the credits that came out of the account.

7

Table 3

Summary of Transactions to FERC Account 707

Category	CY 2007	CY 2008
Regular Wages & Salaries	110,578,546	127,412,920
Total Overtime	35,377,233	38,193,507
Other Salary Expense	2,021,270	2,123,447
Bonus/Incentive	107,576	194,197
Total Wages & Salaries*	148,084,625	167,924,071
Salary Overheads / Benefits / Other Expenses	90,782,556	103,226,317
Total Debits to FERC 707	238,867,182	271,150,388
Secondary Salary Expense**	(235,119,643)	(267,082,179)
Vehicle Lease Fee	(3,747,538)	(4,068,209)
Total Credits to FERC 707	(238,867,182)	(271,150,388)
Total FERC 707	-	-

* Total wages and salaries ties to the Company's response to ICNU Data Request 9.8.

** Secondary salary expense is the labor allocation activity that is processed within the Company's accounting system (SAP).

8

1 As shown in Table 3, the credits coming out are not segregated by type of labor cost. The
2 statement in the Company's supplemental response to ICNU DR 9.8 referenced by Ms.
3 Blumenthal on ICNU/600, Blumenthal/5 does not indicate that the Company did not clear
4 the amounts in FERC 707 in 2006 and 2007. The statement references the fact that to
5 provide ICNU an estimation of the wage and salary portion only of labor costs on an
6 Oregon-allocated basis, the Company needed to use the amounts in FERC 707 before
7 they were cleared. Once the amounts clear this account, the final amounts can be
8 calculated on a total labor cost basis only.

9 **Q. Mr. Dalley, is there any need to calculate Oregon-allocated wages and salaries**
10 **separate from Oregon-allocated total labor costs?**

11 A. No. Given that other elements of labor costs are allocated on the same basis as wages
12 and salaries, there is no reasonable basis to separately calculate Oregon-allocated wages
13 and salaries.

14 **Q. Mr. Dalley, you stated that Ms. Blumenthal's analysis contains two major flaws.**
15 **What is the second major flaw?**

16 A. The second major flaw in Ms. Blumenthal's argument is her use of an historical trend to
17 calculate her proposed Oregon allocation of 27.8 percent. Allocation factors are
18 determined based on load forecasts, not historical trends in load. Using a calendar year
19 2010 load forecast to develop pro forma revenues, net power costs filed in the Transition
20 Adjustment Mechanism, and allocation factor percentages for all other costs in the
21 Company's revenue requirement, but then using historical allocation percentages to
22 calculate labor costs ignores the matching principle. As stated in my direct testimony, the
23 allocation factors used in this filing "have been developed using forecast loads consistent

1 with the loads used in the development of Test Period revenues and net power costs.”

2 ICNU has not taken any issue with the Company’s load forecasts in this proceeding. In
3 addition, all the calculations in Ms. Blumenthal’s historical trend analysis use estimated
4 wage and salary data rather than actual total labor cost data. This error was discussed
5 above.

6 **Q. What is the Parties’ recommendation with respect to Ms. Blumenthal’s wages and**
7 **salaries allocation adjustment?**

8 A. The Parties recommend that the Commission not accept Ms. Blumenthal’s most recent
9 wages and salaries allocation adjustment.

10 **Response to Testimony of Michael P. Gorman by Steve Storm, Sam Hadaway, and Bruce**
11 **Williams**

12 **Q. What is the subject of Mr. Gorman’s testimony?**

13 A. Mr. Gorman’s testimony discusses ICNU’s proposed ROE and capital structure for the
14 Company.

15 **Q. Does the Stipulation include a stipulated ROE or capital structure?**

16 A. No. The Parties agreed on the rate of return (“ROR”) and agreed to use specific cost of
17 capital components only for calculating taxes collected in rates for purposes of SB 408.
18 The Parties did not, however, accept the individual cost of capital components.

19 **Q. Please explain Mr. Gorman’s proposal regarding the return on equity.**

20 A. Mr. Gorman argues that the Company should receive no greater than a 10.00 percent
21 ROE, in comparison with the 10.125 percent referenced in the Stipulation. Mr. Gorman
22 argues that because the economy is improving, 10.125 percent is too high. Notably, Mr.

1 Gorman does not discuss the ROR in the Stipulation, which was the only capital
2 component to which the Parties agreed.

3 **Q. Why is it significant that Mr. Gorman failed to challenge the overall rate of return**
4 **agreed to by the Parties?**

5 A. First, the stipulated ROR of 8.08 percent is very close to the 8.01 percent ROR Mr.
6 Gorman proposed. Second, the stipulated ROR reflects a decrease from what is currently
7 included in rates. In the Company's last general rate case, the stipulated ROR was 8.16
8 percent. Order No. 06-530. Thus, due to the Company's ability to reduce its cost of debt,
9 the overall cost of capital and the stipulated ROR reflect a decrease. Mr. Gorman's
10 testimony fails to acknowledge or address this important fact.

11 **Q. Is the ROE referenced in the Stipulation within the range of reasonable results?**

12 A. Yes. The parties to this case proposed ROEs ranging from Staff's proposal of 9.4 percent
13 to the Company's proposal of 11.0 percent. ICNU's proposed ROE of 10.00 percent is
14 unchanged from its previous testimony. Even performing a simple average of the two
15 extremes proposed by any of the parties results in an ROE of 10.2 percent—above the
16 level notionally used in the Stipulation.

17 **Q. Did Mr. Gorman propose a range of ROE values that ICNU considers reasonable?**

18 A. Yes. Mr. Gorman arrived at his 10.00 percent ROE by averaging the limits of his range
19 of ROE estimates. See ICNU-CUB/300, Gorman/2, ll. 1-2. His reasonable range was 9.6
20 percent to 10.4 percent. The ROE used to calculate the stipulated ROR is still well within
21 the range of reasonable ROEs included in Mr. Gorman's testimony.

22 Mr. Gorman's own testimony supports the reasonableness of an ROE of
23 10.125 percent. In an attempt to defend his proposed 10.00 percent ROE, Mr. Gorman

1 testified that it was closer to the simple arithmetic average of all the ROEs he calculated
2 using different methods. *See* ICNU/500, Gorman/9, Table 3. When he averaged all of
3 his various ROE calculations, he testified the result was 10.05 percent.¹ *See* ICNU/500,
4 Gorman/9, Table 3. Although Mr. Gorman argues this result is “approximately
5 10.0 percent,” it is also approximately 10.125 percent. In fact, of the seven methods
6 utilized by Mr. Gorman, only three resulted in ROEs lower than the ROE notionally used
7 within the Stipulation—the majority of his studies resulted in an ROE closer to or higher
8 than the notional 10.125 percent of the Stipulation. *See* ICNU/500, Gorman/9, Table 3.
9 Lastly, Mr. Gorman’s Table 3 includes what he himself defines as his reasonable and his
10 unreasonable ROE estimates. If one simply removes from Mr. Gorman’s Table 3
11 calculation the estimates that he himself identifies as “unreasonable” (*See* ICNU/500,
12 Gorman/9, lines 2 – 4) the average ROE estimate of Mr. Gorman’s studies is 10.4
13 percent; a value above the 10.125 percent contained in the Stipulation. *See* ICNU/500,
14 Gorman/9, Table 3. If one also removes the constant growth estimate of 11.68 percent
15 and the CAPM results of 8.73 percent and 8.41 percent, Mr. Gorman’s testimony fails to
16 show that the stipulated ROR is consistent with an ROE that is outside the range of
17 reasonableness.

18 **Q. Does Mr. Gorman raise any other concerns about the cost of capital?**

19 **A.** Yes. Mr. Gorman also criticizes the capital structure reflected in the agreement primarily
20 because he alleges that the Company overstated its projected retained earnings balance.
21 Mr. Gorman also makes specific criticisms of the Company’s ROE analysis, including
22 the exclusion of CAPM results and the GDP growth rate used in the Company’s multi-

¹ The average of the ROEs contained in Table 3 is actually 10.06 percent.

1 stage DCF analysis. While the Parties are not in agreement regarding an appropriate
2 GDP growth rate, we refer the Commission to the Company's reply testimony of Bruce
3 Williams and Dr. Sam Hadaway, which address these issues in detail. *See* PPL/214 and
4 PPL/307. Regardless of Mr. Gorman's issues with ROE and capital structure, the fact
5 remains that the stipulated ROR is well within the range of reasonableness that Mr.
6 Gorman himself proposed.

7 **Q. Has the Commission discussed ROE in the context of future settlements in a recent**
8 **order?**

9 A. Yes. In Order No. 09-422 in Docket UG 186, the Commission stated that "...it would be
10 useful if the parties were to address in their testimony the reasonableness of their
11 proposed return on equity in relation to other returns adopted by the Commission in
12 recent cases, and offer some opinion regarding the relationship among the outcomes."

13 **Q. Is the context of testimony filed regarding ROE in the current Docket similar to that**
14 **in docket UG 186?**

15 A. No. The "all-parties" settlement reached in UG 186 was before parties other than Avista
16 filed testimony on ROE. Consequently, the record developed in that docket with respect
17 to ROE was solely comprised of Avista's application. Settlement in this docket occurred
18 after all parties had filed extensive testimony and the Company had filed two rounds of
19 testimony. Therefore, there is sufficient analysis filed in this case in order to review the
20 settlement on ROR.

21 **Q. What are your thoughts regarding the cost of capital notionally used within this**
22 **Stipulation in the context of general rate case dockets over the past few years?**

1 A. ROE, as mentioned previously, has not been settled in this docket. Rather, what was
2 settled was the ROR. A notional capital structure and the costs of each component were
3 established within the Stipulation in order to calculate taxes to be collected in rates for
4 purposes of SB 408. However, we note that ROE has many considerations, including the
5 business portfolio of the utility, credit rating, and the degree of leverage in the capital
6 structure. It is, therefore, difficult to compare returns allowed by the Commission, even
7 if the decisions are issued close together in time.

8 We also note that in UG 186, the settled ROE was 10.1 percent. This compares
9 with the 10.125 percent notional return on equity used in this settlement. We further note
10 that PacifiCorp is an electric utility and Avista, for purposes of Oregon regulation, is in
11 the natural gas distribution business. However, stipulations contain language that the
12 settlement is not precedential and that the parties achieved settlement without specifically
13 agreeing to all components of the settlement. Therefore, justifying specific terms of a
14 settlement in one case based upon the terms of a settlement in a different case is
15 inappropriate.

16 **Response of CUB to Testimony of Ms. Blumenthal and Mr. Gorman**

17 **Q. Given that CUB co-sponsored the opening testimony filed by Ms. Blumenthal and**
18 **Mr. Gorman, and those witnesses are testifying in objection to the Stipulation, does**
19 **CUB still support the Stipulation?**

20 A. Yes. Under Oregon's Intervenor Funding program, customer groups are encouraged to
21 pool resources and hire joint witnesses. It is inevitable that there will be times where
22 organizations that are co-sponsoring a witness will disagree on whether a settlement is
23 reasonable. That is the case in this instance. CUB believes that the rates proposed under

1 this settlement are reasonable and ICNU does not. This difference of opinion likely
2 arises from the fact that one of CUB's core beliefs is that a rate case is about setting rates,
3 not approving costs. While parties to proceedings examine costs as part of a process to
4 forecast a test year revenue requirement, the goal of the proceeding is to establish
5 reasonable rates. CUB is concerned that when rate cases get so focused on very specific
6 cost elements, utilities may be encouraged to file deferrals when the actual costs are
7 greater than the forecast. In this case, while ICNU criticizes the settlement as containing
8 a lack of detailed costs, CUB believes, based on CUB's months of forecast review, that
9 the level of cost detail in the Stipulation is more than adequate, and, more importantly,
10 that the proposed rates are reasonable. As the Commission recently noted:

11 The Commission recognizes that general rate case issues typically reflect
12 judgments along a continuum of outcomes and rarely can be reduced to
13 one "right" number in any cost category.

14 Docket UG 186, Order No. 09-422 at 8.

15 CUB does agree with ICNU that this is a difficult time for customers. In CUB's
16 opening testimony unemployment figures were cited to show that PacifiCorp serves parts
17 of the state that have been hit extremely hard by this recession. CUB/100, Jenks/24.
18 CUB recognizes that raising rates is not helpful to families and businesses that are
19 struggling. At the same time, CUB cannot ask Oregon utilities to stop making
20 investments in their respective service territories without future impacts to service and
21 system performance. CUB understands that making cost-effective investments today will

1 lead to lower rates in the future. Not making those investments may well lead to higher
2 rates in the future.²

3 CUB co-sponsored Mr. Gorman's opening testimony and Ms. Blumenthal's
4 opening testimony. Based on their testimony, the Company reply testimony and
5 settlement discussions, CUB believes that the Stipulation represents a reasonable result.
6 The Stipulation represents a \$40.6 million reduction in the revenue requirement proposed
7 by PacifiCorp. Mr. Gorman's opening testimony supported a \$26.7 million reduction.
8 While the recommended revenue requirement adjustment in Ms. Blumenthal's opening
9 testimony was considerably higher, after receiving updated data requests and additional
10 information from PacifiCorp, Ms. Blumenthal's adjustment now stands at \$21.7 million.
11 From CUB's perspective, the Stipulation achieves more than 80 percent of the reduction
12 in revenue requirement that our co-sponsored witnesses are proposing. This is a pretty
13 good result. While we would love to see the entire rate increase removed, as this case
14 progressed we were not able to identify supportable adjustments to achieve such a result.

15 With regards to the specifics of our co-sponsored witnesses, Mr. Gorman
16 proposed a ROR of 8.01 and an ROE of 10.0. In reply testimony, PacifiCorp proposed an
17 ROR of 8.53 percent and an ROE of 11.0 percent. Mr. Gorman's opening testimony at
18 ICNU-CUB/300, Gorman/3 proposed a revenue requirement adjustment of \$26.7 million
19 from PacifiCorp's request, while the Stipulation reduced revenue requirement associated
20 with cost of capital by \$22.5 million. The Stipulation is much closer to the position CUB
21 litigated than PacifiCorp's position. In addition, the ROE notionally used in the
22 Stipulation is within the range that Mr. Gorman testified was reasonable: 9.6 to 10.4

² For the reasons given above, Mr. Jenks appeared before the Commission on October 20th to support increasing the charge that NW Natural applies to bills to recover the costs of energy efficiency programs.

1 percent. ICNU-CUB/300 Gorman/2. Finally, CUB notes that the cost of capital in this
2 case is lower than what is currently in rates, which means that the cost of capital is
3 decreasing and this “cost reduction” is being used to offset other costs that are increasing.

4 Ms. Blumenthal, based upon the initial information provided to her by PacifiCorp,
5 proposed a series of reductions with regards to wages and salary, benefits and pensions,
6 and payroll taxes. The Company responded to Ms. Blumenthal’s proposed reductions in
7 its reply testimony, and also in supplemental data responses. Based upon the information
8 provided in the Company’s reply testimony and in its supplemental data responses, CUB
9 decided to enter into settlement negotiations with the Company and the other parties.
10 The Stipulation developed and filed by the Parties contains an A&G reduction of \$16.2
11 million, which CUB believes is a reasonable settlement of salary, benefits and pensions
12 and is responsive to Ms. Blumenthal’s testimony.

13 **Conclusion**

14 **Q. What do the Parties recommend?**

15 A. The Parties recommend that the Commission adopt the Stipulation. The Stipulation will
16 result in just and reasonable rates and is supported by the evidence. The Parties
17 recommend that the Commission reject ICNU’s proposal to add additional terms and
18 conditions to the Stipulation.

19 **Q. Does this conclude your testimony?**

20 A. Yes.