PUBLIC UTILITY COMMISSION OF OREGON

UM 1712

CROSS-ANSWERING TESTIMONY OF

LINNEA WITTEKIND
BRIAN BAHR
JOHN CRIDER

In the Matter of
PACIFICORP, dba PACIFIC POWER,
Application for Approval of Deer Creek Mine Transaction.

March 19, 2015

CASE: UM 1712
WITNESS: LINNEA WITTEKIND

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 400

Cross Answering Testimony

March 19, 2015

Q. Please state your name, occupation, and business address.

A. My name is Linnea Wittekind. I am a Senior Financial Analyst in the Energy – Rates, Finance and Audit Section of the Oregon Public Utility Commission. My business address is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97302.

Q. Please describe your educational background and work experience.

A. My Witness Qualification Statement is found in Exhibit Staff/101.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to summarize the response testimony of the intervening parties and to offer Staff recommendations in response that testimony.

Q. How is your testimony organized?

A. My testimony is organized as follows:

1. Summary of Parties' Positions
2. Staff's Response to Parties' Positions
3. Summary of Recommendations

1. SUMMARY OF THE PARTIES' POSITIONS

Q. Who are the intervening parties in this proceeding?

A. The intervening parties are the Sierra Club, Industrial Customers of Northwest Utilities (ICNU), and Citizens' Utility Board (CUB) herein collectively referred to as the "Parties."

Q. Can you please provide a reminder of PacifiCorp's requested regulatory requests?

A. Yes. As stated in Staff's response testimony, PacifiCorp requests a Commission determination that the closure of the Deer Creek Mine is in the public interest, the sale of Mining Assets is appropriate, and that its decision to enter into the transaction (plus the Medical Benefits Settlement) is prudent. Specifically, PacifiCorp requests:

1. Approval of its proposed Deer Creek Mine closure tariff, which is designed to be effective June 1, 2015, and recover closure costs in 2015 and 2016, which would be trued up once actual closure is complete in 2016.
2. An accounting order authorizing PacifiCorp to transfer the remaining plant balance for the Deer Creek mine from electric plant in service, establish a regulatory asset, and accelerate the recovery of the asset through the Deer Creek Mine closure tariff, with an offset for Deer Creek costs now in rates, so that its investment in the mine is fully amortized before mine closure is complete in 2016;
3. An accounting order authorizing it to establish a regulatory asset for the 1974 Pension Trust withdrawal liability, an accounting order for the loss associated

with the Medical Benefits Settlement, and a determination that both of these decisions are prudent;

4. Approval of the sale of the Mining Assets, adding the loss of the sale to the Deer Creek Mine closure tariff for immediate amortization, with an offset for costs now in rates, so that the loss on the Mining Assets is fully amortized before mine closure is completed in 2016;
5. Approval of an accounting order reflecting costs associated with the coa supply agreements (CSAs) in 2015 in a regulatory asset for unrecovered investment. In addition, it seeks approval to: 1) recover the costs of the CSAs and other replacement fuel supply until such time that base net power costs are reset in the 2016 TAM through the Deer Creek Mine closure tariff; and, 2) inclusion of the CSAs in the 2016 TAM.
6. An order authorizing it to defer costs associated with the transaction to the extent necessary to effectuate the regulatory treatment requested.

Q. Please provide a brief summary of the parties' positions.

A. Overall the Parties' are not supportive of the Deer Creek Mine Closure tariff made in Request No. 1 or the accounting order requested in Request No. 2. The Parties' do, however, support the accounting order requested in Request No. 3, establishing a regulatory asset for the 1974 Pension Trust withdrawal liability. As for the second part of Request No. 3, an accounting order for the loss associated with the Medical Benefits Settlement, it is most of the Parties' opinion and that this piece is severable and should not be included in the transaction. Staff is of a similar opinion. Regarding Request No. 4, approval of the mining assets Parties' do not support this request. Parties' are also unsupportive of Request No. 5, an accounting order reflecting costs associated with the CSAs in 2015 in a regulatory asset for unrecovered investment. As for Request No. 6, an order authorizing it to defer costs associated with the transaction to the extent necessary to effectuate the regulatory treatment requested, CUB supports this request while other parties do not.

Q. Are the Parties in agreement with PacifiCorp's requested regulatory requests?

A. The following table outlines the Parties' response testimony positions:

Table 1 – Parties' and Staff Position by PacifiCorp's Application Request

	CUB	ICNU	Sierra Club	OPUC Staff
Request No. 1	Opposed	Opposed	Not Addressed	Opposed
Request No. 2	Opposed	Opposed	Not Addressed	Opposed
Request No. 3	Supported	Supported	Not Addressed	Supported
Request No. 4	Supported	Not Addressed	Not Addressed	Suppported
Request No. 5	Opposed	Opposed	Opposed	Opposed
Request No. 6	Supported	Opposed	Opposed	Opposed

Q. Please summarize the Parties' positions on PacifiCorp's Request No. 1 - the Deer Creek Mine Closure tariff.

A. CUB states that it cannot support PacifiCorp's proposed rate recovery, which includes approval of the proposed Deer Creek Mine closure tariff effective June

1, 2015.[1] ICNU argues that the Commission should reject PacifiCorp's ratemaking proposal and evaluate it in a future general rate proceeding.[2] Sierra Club's testimony did not directly address PacifiCorp's request for approval of the Deer Creek Mine closure tariff. Generally, the Parties seem concerned with, and are opposed to, single issue ratemaking through this proceeding.

Q. Please summarize the Parties' positions on Request No. 2 – approval for an accounting order and regulatory asset to accelerate the recovery of the Deer Creek mine plant, with an offset for costs currently in rates.

A. As previously stated, CUB does not support PacifiCorp's proposed rate recovery in this proceeding. PacifiCorp's last rate case was in 2013 and set rates for 2014 based upon a forecast 2014 test year.[3] While CUB agrees that there are costs associated with this transaction that were not forecast in the 2014 test year, there may also be costs that were forecast into 2014 that are no longer occurring today.[4] CUB further states that there is a general prohibition on single-issue ratemaking.[5] As stated in ICNU's testimony, focusing on an isolated group of costs – the costs associated with the transaction outside of a general rate revision would constitute a form of single issue ratemaking.[6] Sierra Club does not specifically address this issue.

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[1] *See* CUB/100, Jenks-McGovern/14, at 18 and 19.
[2] *See* ICNU/100, Mullins/3, line 26 through Mullins/4, line 4.
[3] *See* Docket No. UE 263 Order No. 13-474, Appendix A, ¶ 15, at 5-6.
[4] *See* CUB/100; Jenks-McGovern/15, lines 24-26.
[5] *See* CUB/100; Jenks-McGovern/15, lines19-20.
[6] *See* ICNU/100; Mullins/4, lines 8-10.

Q. Please summarize the Parties' positions on Request No. 3 – approval for an accounting order authorizing PacifiCorp to establish a regulatory asset for the 1974 Pension Trust withdrawal liability and Medical Benefits Settlement, as well as a determination that both of these decisions are prudent.

A. CUB agrees that the decisions to withdraw from the 1974 Pension Trust and to settle the Retiree Medical Obligation were prudent and recommends that the settlement loss should be included in a deferral, with the other transaction costs. However, if an accounting order to create a regulatory asset were deemed necessary, CUB has no objection.[7] Without specifically addressing the 1974 Pension Trust withdrawal, Sierra Club agrees with Staff that the settlement loss should not be considered in this proceeding. ICNU's position with regard to the settlement loss is consistent with Staff's and Sierra Club's, but also proposes that the amount of the regulatory asset for the pension withdrawal liability be capped at $39.4 million. For further discussion and the Parties' positions see Staff/500; Bahr/1 at line 1 through Bahr/5 at line 6.

Q. Please summarize the Parties' positions on Request No. 4 - approval of the sale of mining assets.

A. CUB supports approval of the sale, with a position that the loss on the sale should be included in a deferral with an offset for costs currently in rates.[8] ICNU does not specifically endorse or reject the sale of assets. However, ICNU claims that the Company did not remove a value representing the return on the

[7] *See* CUB/100; Jenks-McGovern/20, line 13.
[8] CUB/100; Jenks-McGovern/21

mining assets already in rates from its calculation. ICNU proposes an adjustment to account for this portion of return earned by the Company. Sierra Club does not object to the conclusion that closure of Deer Creek mine is in the best interest of customers,[9] but remains silent on the Sale of Mining Assets specifically. See Staff testimony Staff/600; Crider/3 lines 2 through 15 for a summary of Parties' positions with regards to Request No. 4.

Q. Please summarize the Parties' positions on Request No. 5 – request for an accounting order to create a regulatory asset reflecting costs associated with CSAs in 2015.

A. The primary concern among all Parties regarding the CSA is the risk to ratepayers from being locked into a long-term coal supply contract in the event that either Hunter or Huntington generation plant becomes uneconomic to operate for any reason. Parties want assurance that ratepayers will not pay for unused coal in the event that the cost of the plant's environmental compliance becomes too great or if conversion to natural gas becomes a more economical alternative when compared to continued coal operation. The terms of the CSA require the Company to purchase a minimum amount of coal regardless of plant need. The Company has negotiated an exit clause in the contract which allows exit without damages in the case that new regulations affect the plant's ability to operate economically. It is unclear among parties exactly which events would trigger the clause, and which would not. It is the uncertainty about the applicability of the clause, and the potential cost of litigation

[9] Sierra Club/100; Fisher/6

surrounding its interpretation, that represents business risk. See Staff testimony Staff/Crider; 600/4 at line 3 through Crider/6 at line 5, for a detailed summarization of Parties' positions with regards to Request No. 5.

Q. Please summarize the Parties' positons on Request No. 6 - an order authorizing it to defer costs associated with the transaction.

A. CUB supports deferring the costs at issue in this proceeding for later recovery.[10] ICNU did not specifically comment on the request of for a deferral because it recommends that the Commission reject PacifiCorp's proposed ratemaking and evaluate it in a future general rate proceeding instead. Sierra Club did not address this issue in its testimony.

[10] *See* CUB/100; Jenks-McGovern/18, line 13.

2. STAFF'S RESPONSE TO PARTIES' POSITIONS

Q. Please summarize ICNU's proposal to account for the Embedded Cost Differential (ECD).

A. ICNU argues that PacifiCorp did not account for the ECD provision of the 2010 Protocol when it performed the inter-jurisdictional cost allocation for the expense and investment associated with the transaction.[11] Accordingly, ICNU recommends that the Commission apply this additional credit to any amount collected, or included in a regulatory asset, associated with the transaction in this proceeding.[12]According to ICNU, if the ECD approved in Docket No. UE 263 had reflected the one-year amortization that the Company proposed in this proceeding, the ECD credit amount would increase by approximately $3.7 million.[13] CUB and Sierra Club did not address the ECD provision.

Q. What is Staff's recommendation regarding the ECD?

A. Staff supports ICNU's proposal in concept but has not yet verified the calculation of the $3.7 million ECD credit. Staff continues to recommend that, in order to ensure Oregon's value of the ECD is not diminished through this transaction, the costs associated with this transaction should be included in calculating the ECD component of costs of "other resources."

Q. What is Staff's position regarding ICNU's proposal to cap the 1974 Pension Trust withdrawal liability at $39.4 million?

[11] *See* ICNU/100; Mullins/20, lines 4-6.
[12] *See* ICNU/100; Mullins/21, lines 18-20.
[13] *See* ICNU/100; Mullins/21, lines 16 – 18.

A. Staff does not support ICNU's proposed cap. Staff recommends that the Commission approve an accounting order to establish a regulatory asset and reserve for a future ratemaking docket the right to determine what amount of the asset should actually be included in rates.

Q. What is the stay-out provision?

A. In Order No. 13-474, the Commission adopted a stipulation that stated:

> The Company agrees to forego a general rate filing in Oregon in 2014. Following the implementation of rates on January 1, 2014, in this case and the implementation of Lake Side 2 tariff rider on approximately June 1, 2014, the earliest proposed rate effective date for the Company's next general rate case filing will be January 1, 2016. The Stipulating Parties may file for deferrals during the general rate case stay-out period, but such filings will be subject to the Commission's guidelines for deferrals set forth in Docket UM 1147, unless otherwise authorized by the Commission. The Stipulating Parties agree that their goal is to minimize rate changes during the general rate case stay-out period.

Q. Please address the Parties' positions on the stay-out provision.

A. As stated in CUB's testimony, PacifiCorp's proposed ratemaking treatment in this proceeding ignores that PacifiCorp agreed that it would forego general rate changes until January 1, 2016.[14] CUB also argues that PacifiCorp made this filing under the general rate making statute.[15] ICNU agrees that the proposed rate increase in this proceeding is inconsistent with the stipulation and argues that PacifiCorp's proposal for a 3.4 percent rate increase, on June 1, 2015, is clearly inconsistent with the intent of parties "to minimize rate changes during the general rate case stay-out period."[16]

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[14] *See* CUB/100; Jenks-McGovern/16, lines14-16.
[15] *See* CUB/100; Jenks-McGovern/17, line 14 (ORS 757.210).
[16] *See* ICNU/100; Mullins/8, lines 19-21.

Q. What is Staff's recommendation on the stay-out provision?

A. Staff argues that a tariff surcharge in 2015 through a tariff filing under ORS 757.210 is inconsistent with the plain meaning and the intent of the negotiated and Commission-approved stay-out provision.

Q. What impact would the stay-out provision have on PacifiCorp's tariff surcharge proposal?

A. Application of the stay-our provision would result in PacifiCorp absorbing through regulatory lag approximately 58 percent of the tariff closure costs and charging ratepayers for approximately 42 percent of the tariff closure costs, assuming a one-year amortization period.[17]

Q. Staff's alternative recommendation suggested a two-year amortization period for a tariff surcharge, does any party propose a different amortization period?

A. Yes. In order to properly match costs with benefits, ICNU recommends that the Commission should amortize any regulatory account approved in this proceeding over the same period.[18] ICNU states that based on PacifiCorp's analysis, the net benefits of the transaction will accrue to ratepayers over a period ending December 2029.[19] Therefore, ICNU recommends that the transaction be amortized over the same period.[20]

[17] 7/12th of the tariff surcharge costs would be absorbed through regulatory lag in 2015 and 5/12th would be charged to ratepayers in 2016, respectively.
[18] *See* ICNU/100; Mullins/2, lines 11-13.
[19] *See* ICNU/100; Mullins/9, lines 17-18.
[20] *See* ICNU/100; Mullins/9, lines 20-21.

CUB recommends a recovery period that is no longer than five years.[21]

Q. What is Staff's recommendation on the appropriate amortization period?

A. In its response testimony, Staff had an alternative recommendation that proposed a two-year amortization period. The Deer Creek mine plant in rate base, absent sale or closure, would be collected in rates at PacifiCorp's rate of return through 2019.[22] Because PacifiCorp is not allowed to earn a rate of return on plant that is no longer used and useful, PacifiCorp prefers a short, one-year amortization schedule. However, the shorter the amortization period the less the ratepayer benefits match the ratepayer costs. In viewing the testimonies to date, Staff agrees that a longer time period matches costs and benefits better. In recognizing the Company's interest in a shorter amortization time period, and the 2019 date mentioned above, Staff has adjusted its recommendation and supports a five-year amortization period.

Q. What interest rate should apply during this amortization time period?

A. Staff supports using the then effective blended treasury rate, during the coincident amortization, be used to reflect a proper discount rate while not allowing the company a return as consistent with the ratemaking treatment for Trojan. This would mean that the applicable blended treasury rate would change each year over the course of the five-year period.

Q. What is ICNU's position on bonus depreciation?

A. ICNU recommends that the Commission require the Company to recalculate the revenue requirement approved in Docket No. UE 263, assuming bonus

[21] *See* CUB/100; Jenks-McGovern/8, line 5.
[22] *See* PAC/200; Stuver/5.

depreciation was extended until 2014. Furthermore, ICNU recommends that the revenue requirement benefit associated with bonus depreciation in 2014 be included in the regulatory asset sought in this proceeding.[23] Based on ICNU's calculation the bonus depreciation benefit associated with Lake Side II, would result in a $2.8 million Oregon allocated reduction to the Company's proposed recovery under Schedule No. 198.[24]

Q. What is Staff's recommendation with regards to bonus depreciation?

A. Staff has not reached a final position on this issue and is awaiting the Company's response to take that into consideration.

Q. What is ICNU's position on whether or not the mine closure is in the public interest test under ORS 757.140?

A. ICNU's testimony states that given the high degree of uncertainty surrounding the future operation of the Huntington facility; it may not be in the public interest for PacifiCorp to execute a long-term coal supply agreement at this time.[25]

Q. What are CUB and Sierra Club's positions on whether or not the mine closure is in the public interest under ORS 757.140?

A. CUB's and Sierra Club's position on whether the mine closure is in the ublic interest is dependent on the interpretation of the environmental provision of the coal supply contract. If the contract protects customers from take or pay costs when environmental regulations make a plant uneconomic, then CUB believes

[23] *See* ICNU/100; Mulline/27, lines 19 - 22.
[24] *See* ICNU/100; Mullins/28, lines 1 – 3.
[25] *See* ICNU/100; Mullins/3, lines 7-9.

that the transaction is in the public interest.[26] Sierra Club states that the Commission may approve the request to close the Deer Creek mine and conditionally reject the Company's request to approve the Huntington CSA.[27]

Q. What is Staff's recommendation on whether or not the closure of the mine is in the public interest under ORS 757.140?

A. Staff supports the sale of Mining Assets if given the proper ratemaking treatment as discussed in Staff's Response Testimony.[28] Staff concurs with CUB and ICNU that any amount currently collected in rates based on the Mining Assets should be removed from rates. ICNU estimates this value based on the Company's calculation. The Company's calculation is included in Exhibit Staff 601.

Q. What is Sierra Club's position on the Huntington CSA?

A. Sierra Club argues that the Commission should reject PacifiCorp's request to approve the Huntington CSA.[29] Sierra Club further states that a CSA would be acceptable under the following conditions:[30]

1. PacifiCorp commits to review the forward-looking economics of Huntington as if the CSA could be exited at its discretion;
2. PacifiCorp commits to hold ratepayers harmless for any and all coal liquidated damages and/or take-or-pay penalties resulting from an early

[26] *See* CUB/100; Jenks-McGovern/22, lines 7 - 10.
[27] *See* Sierra Club/100; Fisher/30, lines 9 - 11.
[28] Staff/300; Crider/8
[29] *See* Sierra Club/100; Fisher/30, line 9-11.
[30] *See* Sierra Club/100; Fisher/30, line 12-21; Sierra Club/100; Fisher/31, lines1-3.

exit from the CSA if a forward-looking assessment of Huntington shows that either one or both of the units at the plant are non-economic;

3. PacifiCorp commits to modeling the operations of Huntington with a variable cost of fuel for the Huntington CSA;
4. PacifiCorp commits to assess the forward-looking economics of the Huntington units, separately, for any capital costs expected to be incurred at the units in excess of $25 million, when such requirements are known.

Q. What is Staff's position on the Huntington CSA?

A. Staff shares the concern raised by CUB and Sierra Club that the exit clause might not be broad enough to adequately protect ratepayers.

Q. What does CUB propose for regulatory treatment of the costs of the proposed transaction?

A. CUB recommends that the costs of the transaction through a deferral, as appropriate, for ratemaking treatment in a later proceeding.[31] CUB's proposed deferral is not a standard request for a deferral. Instead it proposes that no accelerated depreciation be included. CUB also does not believe there needs to be any change in amortization. However, because current rates include both return of and return on the investment in Deer Creek, CUB believes that a deferral should include a credit representing the difference between the Company's authorized rate of return and the time value of money. Because the amortization period for the deferral has not been chosen, CUB believes the

[31] *See* CUB/100; Jenks-McGovern/19, lines 16-18.

interest rate in this calculation should be no more than 3.31 percent.[32] Beyond accelerated depreciation, CUB believes that most or all of these costs and revenues should fit within a traditional deferral.[33] One of such costs CUB includes in its proposed deferral is the settlement loss resulting from the Medical Benefits Settlement between Energy West and the UMWA.[34]

Q. What is Staff's position on CUB's proposed deferral?

A. Staff does not support CUB's proposed deferral. The deferral as proposed has a higher interest rate than what is recommended by Staff and in Staff's opinion does not properly honor the stay-out provision. In its response testimony, Staff primary recommendation was to find the transaction in the public interest under ORS 757.140 and wait until the next general rate proceeding to consider closure costs. With regards to the inclusion of the settlement loss from the Medical Benefits Settlement, Staff's primary recommendation is that the Commission should not address the settlement loss in this docket because it occurred prior to the Company's Application and the transaction is not conditioned on the approval of the prudence of the Medical Benefit Settlement or the creation of a regulatory asset for the settlement loss.

Staff's alternative recommendation was a tariff surcharge under certain parameters. Although Staff recognizes that the Commission has authority to order the costs of the transaction deferred, a better approach is to wait until a future rate case or establish a tariff surcharge in this proceeding. If the

[32] *See* CUB/100; Jenks-McGovern/19, lines 1 – 7.
[33] *See* CUB/100; Jenks-McGovern/19, lines 11 – 12.
[34] *See* Exhibit CUB/100; Jenks-McGovern/18, line 13; Jenks-McGovern/19, line 11; Jenks-McGovern/20, line 14.

Commission adopts Staff's alternative recommendation, which is to approve an accounting order for the creation of a regulatory asset for the settlement loss and determine the Company's settlement of the Retiree Medical Obligation prudent, Staff does not support inclusion of the settlement loss amount in a deferral but instead recommends using a regulatory asset.

Q. What is CUB's position on an interest rate to be applied to the undepreciated investment in plant being retired?

A. CUB proposes that the methodology used match the interest rate to the recovery period and proposes using a 5-year Treasury rate of 1.51 percent.[35] As an alternative, CUB proposes that the interest rate be based on applying PacifiCorp's cost of debt to 48 percent of the return and applying the appropriate Treasury to the remaining 52 percent. Using the two and five year Treasury bonds this gives an interest rate between 2.85 and 3.31.[36]

Q. Does Staff's position agree with CUB's proposed range for interest rates?

A. Staff supports using the Blended Treasure Rate.

Q. What is CUB's overall recommendation.

A. CUB recommends the Commission find that the early closure of the mine is in the public interest. CUB recommends that an interest rate of up to 1.51 percent be used to compensate the Company for the time value of money. CUB also supports alternative methodology that produces an interest rate between 2.85 and 3.31 percent.

[35] *See* CUB/100; Jenks-McGovern/8, lines 7-9.
[36] *See* CUB/100; Jenks-McGovern/10, lines 9-12.

With regards to prudency of the overall transaction, CUB's recommendation is dependent on the interpretation of the environmental provision of the coal supply contract. If it protects customers from take or pay costs when environmental regulations make a plant uneconomical, the CUB believes the transaction is prudent.

CUB does not support the Company's proposed ratemaking treatment for this transaction due to the fact that CUB believes such a rate change violates the prohibition on single issue ratemaking and the stay out provision. CUB instead supports the Company's request for a deferral filed as part of the transaction allowing the Company to recover prudently incurred costs associated with this transaction.[37]

Q. What is ICNU's overall recommendation.

A. ICNU recommends that the Commission find that the transaction is the not in the public interest, unless the Company agreed that it would exclude any long-term coal contract liabilities or costs related to the Huntington CSA in any future analysis evaluating the retirement of the Huntington facility.[38]

ICNU also recommends that the UMWA retiree medical settlement be eliminated from the Transaction costs eligible for accounting under ORS 757.140(2).[39]

As for Bonus Depreciation ICNU, recommends that the Commission require the Company to recalculate the revenue requirement approved in Docket No. UE

[37] *See* CUB/100; Jenks-McGovern/21 lines 20 - 22, CUB/100; Jenks-McGovern/22 lines 1 – 17.
[38] *See* ICNU/100; Mullins/30 lines 1 – 4.
[39] *See* ICNU/100; Mullins/29 lines 12 -13.

263, assuming bonus depreciation was extended until the end of 2014. In addition, ICNU proposes that the benefit associated with the bonus depreciation be included in the regulatory asset sought in this proceeding.[40] ICNU recommends that if any ratemaking is approved in this proceeding, the return on mining assets currently reflected in rates must be removed from any amounts the Company collects or accrues to a regulatory asset.

With regards to ECD, ICNU recommends the Commission apply the additional credit to any amount collected, or included in a regulatory asset, associated with the transaction in this proceeding.[41]

Q. What is Sierra Club's overall recommendation?

A. While Sierra Club does not comment or speak to issues raised by other parties', they do however have specific recommendations regarding the Huntington CSA. Sierra Club recommends the Commission should conditionally reject the Company's request to approve the Huntington CSA.[42] Sierra Club also outlines four conditions under which the CSA could be acceptable which Staff has outlined earlier testimony. Sierra Club's testimony also states the Commission may approve the request to close the Deer Creek Mine.[43]

[40] *See* ICNU/100; Mullins/27 lines 19 -22.
[41] *See* ICNU/100; Mullins/21 lines 19 – 20.
[42] *See* Sierra Club/100; Fisher/30 lines 10 – 11.
[43] *See* Sierra Club/100; Fisher/30 line 9.

3. SUMMARY OF RECOMMENDATIONS

Q. Does Staff recommend that the Commission should make prudence determinations in this proceeding?

A. Staff agrees that the decisions to enter into the Deer Creek Mine closure, withdraw from the Pension Trust, and the sale of mining assets are prudent. Staff does not believe it is appropriate at this time to address the prudence of the Medical Benefits Settlement. Staff supports the CSA contracts assuming the business risk to ratepayers is eliminated with respect to the termination of the CSA in the event a forward-looking assessment of Huntington shows that either one or both of the units at the plant are non-economic. Staff supports reserving for future ratemaking, the specific costs to be recoverable in a future tariff filing or general rate case effective with service on and after January 1, 2016.

Q. Does Staff recommend approval of the closure tariff costs outside of a general rate proceeding?

A. No. The consideration of closure costs outside of a general rate proceeding amounts to a form of single issue ratemaking, which is generally disfavored. In addition, the used and useful requirement does not require that these costs be collected before the closure of the mine so there is no compelling reason to violate general ratemaking principles and create special ratemaking treatment for the costs associated with this transaction.

Q. Is Staff concerned about the risk of being bound to long-term CSAs?

A. Yes. PacifiCorp negotiated what appears to be a favorable provision to avoid liquidated damages if it can longer burn coal at the plants. However, there could be substantial harm to Oregon ratepayers if the provision does not work as PacifiCorp claims it will. Therefore we support in concept the provisions as stated by the Sierra Club. In order to eliminate the risk of being contractually bound to a long-term CSA, Staff recommends that the Commission condition approval upon PacifiCorp assuming the risk of damages should operation of the coal plants become uneconomical and are shut down or converted.

Q. Do you have any other recommendations?

A. Yes. For the regulatory assets Staff offers as alternatives for handling various components of PacifiCorp's filing, amortization of such assets should begin upon implementation of each respective component, while recovery in rates would occur at the earliest on January 1, 2016, consistent with the stay-out provision.[44]

Q. Does this conclude your testimony?

A. Yes.

[44] *See* Staff/500, Bahr/9, line 16 and Bahr/9, line 19.

CASE: UM 1712
WITNESS: BRIAN BAHR

PUBLIC UTILITY COMMISSION OF OREGON

STAFF EXHIBIT 500

Cross-Answering Testimony

March 19, 2015

Q. Please state your name, present position with the Oregon Public Utility Commission, and business address.

A. My name is Brian Bahr. I am employed as a Senior Utility Analyst in the Energy - Rates, Finance, and Audit Division of the Utility Program. My business address is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97308.

Q. Are you the same Brian Bahr that filed testimony previously in this proceeding?

A. Yes, I previously filed testimony in this proceeding, marked as Exhibit Staff/200-202.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to summarize and address issues associated with aspects of PacifiCorp's (Company) Application for Approval of Deer Creek Mine Transaction (Application) relating to pensions and medical benefits.

Q. How is your testimony organized?

A. The testimony is organized as follows:

1. Summary of Parties' Positions
2. Staff's Response to Parties' Positions
3. Summary of Recommendations

1. SUMMARY OF PARTIES' POSITIONS

Q. Please summarize the parties' positions with regard to the Company's withdrawal from the 1974 pension trust.

A. One of the primary benefits of the transaction is the withdrawal from the 1974 Pension Trust (Trust). The parties to the docket appear to have a generally favorable position in regard to the Company's proposed decision to withdraw from the Trust, while not necessarily agreeing on the ratemaking treatment of the withdrawal liability. The Company is requesting the Commission determine the Company's decision to withdraw from the Trust is prudent and to approve an accounting order to establish a regulatory asset for the associated withdrawal liability amount.

Staff continues to recommend that the Commission find the Company's decision to withdraw from the Trust prudent and approve an accounting order to create a regulatory asset, but reserve the Commission's decision on the ratemaking treatment for a future ratemaking proceeding.[1] This approach is consistent with the Company's request and with Commission precedent, and recognizes the benefit of the transaction without including related costs until such time as they can be appropriately reviewed and addressed.

CUB stated that, subject to interpretation of the environmental provision of the coal supply contract, the overall transaction is prudent, and that the Company's request for an accounting order to establish a regulatory asset for the

[1] *See* Exhibit Staff/200; Bahr/19, line 4.

withdrawal liability is reasonable.[2] Sierra Club's testimony did not directly address the prudence or accounting treatment related to withdrawal from the Trust. Industrial Customers of the Northwest Utilities (ICNU) proposes that the regulatory asset for the withdrawal liability be capped at the present value of annual withdrawal payments in perpetuity, using a discount rate of the cost of capital stipulated to in Docket No. UE 263, 7.62 percent.[3] This proposal would ostensibly protect customers from paying more than the withdrawal liability's current value should the Company negotiate a lump-sum withdrawal payment.

Q. Please summarize the Parties' positions with regard to the UMWA Retiree Medical Obligation settlement.

A. PacifiCorp states that a benefit of the overall transaction is that the Company was able to negotiate a lump-sum payment to UMWA for its Retiree Medical Obligation.[4] Accounting standards require the acceleration of unrecognized losses, which PacifiCorp requests approval of an accounting order to record as a regulatory asset.

Because the actual cost creating event (the settlement) occurred in the past, prior to the Application, and the overall transaction is not dependent on the Medical Benefits Settlement, Staff recommended that the settlement loss be subject to regulatory lag and not addressed in this docket. Alternatively, Staff stated that if the Commission were inclined to address it in this docket, the decision to settle the Retiree Medical Obligation should be found prudent and

[2] *See* Exhibit CUB/100; Jenks-McGovern/22, line 7, and Jenks-McGovern/20, line 8.
[3] *See* Exhibit ICNU/100; Mullins/16, line 7.
[4] *See* Exhibit PAC/100; Crane/16, line 18.

the Commission should approve an accounting order to create a regulatory asset for the settlement loss.[5]

CUB agreed with the Company that the decision to settle the Retiree Medical Obligation was prudent and recommended that, in addition to the transaction's other costs (except for the undepreciated investment in the mine), the settlement loss should be included in a deferral. CUB would have no objections to the creation of a regulatory asset through an accounting order, though, if that were found necessary.[6] Alternatively, Sierra Club and ICNU both agreed with Staff that it is inappropriate for the settlement loss to be included in this docket.

Sierra Club testified that the Company's analysis of the transaction case is significantly overstated relative to the market case, in part because the market case incorrectly excludes the full benefit of the Medical Benefits Settlement. Assuming the Medical Benefits Settlement was reached because the Company intended to close or sell the mine, the Company could expect the UMWA to sue if the mine were not closed or sold. However, because the mine was closed already in December 2014, the UMWA would have no recourse to sue if the transaction is not approved. Therefore, the Medical Benefits Settlement is not conditioned on regulatory approval of the CSAs.[7]

ICNU concludes that the settlement loss should not be considered in this docket for three reasons. First, the Medical Benefits Settlement could have

[5] *See* Exhibit Staff/200; Bahr/18, line 8.
[6] *See* Exhibit CUB/100; Jenks-McGovern/20, line 13.
[7] *See* Exhibit Sierra Club/100; Fisher/20, line 8.

been entered into regardless of the rest of the overall transaction and is not intrinsically linked to the closure of the mine. Second, the Medical Benefits Obligation was settled prior to the Company's Application, which would constitute retroactive ratemaking and preclude the Company from recovering its costs under ORS 757.140(2). Third, the settlement loss represents a "paper loss" rather than an actual expenditure incurred.[8]

2. STAFF'S RESPONSE TO PARTIES' POSITIONS

Q. Please address ICNU's proposal to cap the 1974 Pension Trust withdrawal liability at $39.4 million.

A. ICNU proposes that the regulatory asset for the withdrawal liability be capped at $39.4 million. This is the present value of annual withdrawal payments in perpetuity, using a discount rate of 7.62 percent, which is the overall cost of capital stipulated to in Docket No. UE 263.[9] However, consistent with Staff's recommendation to approve prudence of the Company's decisions without addressing ratemaking treatment at this time, Staff concludes that it is not appropriate to address ICNU's proposal until such time as ratemaking treatment for the regulatory asset is determined.

Should the Commission be inclined to address ratemaking treatment in this docket for the regulatory asset associated with the withdrawal liability, Staff does not support ICNU's proposed cap. As noted in the Company's testimony, accounting standards require the Company to record the present value of the

[8] *See* Exhibit ICNU/100; Mullins/28, line 7.
[9] *See* Exhibit ICNU/100; Mullins/16, line 7.

liability using a risk free rate.[10] Recording a regulatory asset for an amount discounted using a higher rate would not allow the Company to completely offset the withdrawal liability, even were the Commission to determine the cost to be prudent. Again, Staff recommends that the Commission approve an accounting order to establish a regulatory asset and reserve for a future ratemaking docket the right to determine what amount of the asset should actually be included in rates.

Q. Please address CUB's proposal to include the UMWA Retiree Medical Obligation settlement loss in a deferral.

A. CUB proposes that certain costs of the transaction be included in a deferral, including the settlement loss resulting from the Medical Benefits Settlement between Energy West and the UMWA.[11] Staff witness Wittekind addresses CUB's overall proposal, but specifically with regard to the inclusion of the settlement loss in a deferral, Staff does not support this position. As stated previously, Staff's primary recommendation is that the Commission should not address the settlement loss in this docket because it occurred prior to the Company's Application and the transaction is not conditioned on the approval of the prudence of the Medical Benefit Settlement or the creation of a regulatory asset for the settlement loss.

Even if the Commission adopts Staff's alternative recommendation, which is to approve an accounting order for the creation of a regulatory asset for the

[10] *See* Exhibit PAC/200; Stuver/9, line 19.
[11] *See* Exhibit CUB/100; Jenks-McGovern/18, line 13; Jenks-McGovern/19, line 11; Jenks-McGovern/20, line 14.

settlement loss and determine the Company's settlement of the Retiree Medical Obligation prudent, Staff does not support inclusion of the settlement loss amount in a deferral rather than a regulatory asset. Because the settlement loss was incurred prior to the Company's application, the prohibition on retroactive ratemaking would preclude the cost from being included in a deferral. However, an accounting order approving the creation of a regulatory asset would allow the costs to be reserved until a future ratemaking proceeding, at which time they could be analyzed and addressed. Should an accounting order to establish a regulatory asset be approved, Staff recommends the Commission note that the amount allowed in rates at the time of the appropriate ratemaking docket should reflect an amortization period beginning at the time the cost is incurred. This recognizes the stay-out clause stipulated to in the Company's last general rate case.

Q. Please address Sierra Club's assertion that the Company's analysis of the transaction case is overstated relative to the market case, in part, because of the inappropriate exclusion of the Retiree Medical Obligation settlement benefits from the market case.

A. Staff agrees with Sierra Club's conclusion and supporting facts that the benefits of the Medical Benefits Settlement should have been included in the Company's market case. As the mine is already closed,[12] regardless of whether the Company proceeds with the other elements of the transaction or Commission approval is granted, there appears little reason to conclude that

[12] *See* Exhibit Sierra Club/100; Fisher/22, line 14.

the Medical Benefits Settlement is conditioned on the other elements of the transaction. Sierra Club's overall recommendation that the reduced benefit of the transaction case relative to the market case is not worth the risk involved will be addressed by Staff witness Wittekind.

Q. Please address ICNU's reasons for recommending that the UMWA Retiree Medical Obligation settlement loss should not be addressed in this docket.

A. ICNU first states that its understanding is that the Company could have entered into the Medical Benefits Settlement regardless of whether it entered into the other components of the transaction.[13] This is contrary to the Company's claim that the Medical Benefits Settlement was reached only because of the understanding that the Company was seeking to close or sell the mine.[14] Staff accepts that the Medical Benefit Settlement was likely reached based on good faith that Energy West intended to consummate the overall transaction. However, the Medical Benefits Settlement is neither dependent on regulatory approval of other parts of the transaction, nor is the overall transaction dependent on the outcome of the Medical Benefits Settlement. The settlement loss would typically fall to regulatory lag, absent a deferral application from the Company.

ICNU asserts that, in addition to the overall transaction not being conditional on the Medical Benefit Settlement, including the settlement loss in rates would

[13] *See* Exhibit ICNU/100; Mullins/29, line 5.
[14] *See* Exhibit PAC/100; Crane/20, line 10.

constitute retroactive ratemaking.[15] Staff agrees that for these costs to be included in future rates, the Company would need to be granted an accounting order to create a regulatory asset or a deferral. However, as discussed previously, a deferral would capture costs only back to when it was filed, and the Medical Benefits Settlement occurred prior to the Company's Application, thereby making a deferral inappropriate under these circumstances.

ICNU's third contention is that, as acceleration of an unrecognized loss, the settlement loss does not actually represent costs incurred by the utility.[16] Because the Company is only requesting approval of an accounting order to establish a regulatory asset, and not requesting at this time to include the settlement loss in rates, Staff advises that this issue should be addressed in a ratemaking docket, rather than at the time the Company requests a regulatory asset.

3. SUMMARY OF RECOMMENDATIONS

Q. Please summarize Staff's recommendations regarding the 1974 Pension Trust withdrawal and Retiree Medical Obligation settlement.

A. Staff recommends that the Commission approve the Company's request for an accounting order to create a regulatory asset for the 1974 Pension Trust withdrawal liability. The Medical Benefits Settlement is severable from the transaction so need not be considered in this proceeding. However, Staff would not oppose approval of an accounting order to create a regulatory asset

[15] *See* Exhibit ICNU/100; Mullins/29, line 8.
[16] *See* Exhibit ICNU/100; Mullins/28, line 19.

for the settlement loss. Additionally, Staff recommends that the Commission determine that the Company's decision to withdraw from the Trust, as part of the overall transaction, is a prudent decision at this time given the information currently known. Nevertheless, the Commission should reserve the right to address the ratemaking treatment of costs associated with these portions of the transaction to a future ratemaking proceeding.

Q. Does this conclude your cross-answering testimony?

A. Yes.

CASE: UM 1712
WITNESS: JOHN CRIDER

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 600

Cross-Answering Testimony

March 19, 2015

Q. Please state your name, present position with the Oregon Public Utility Commission, and business address.

A. My name is John Crider. I am employed as a Senior Utility Analyst in the Energy Resources and Planning (ERP) division of the Utility Program. My business address is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97308.

Q. Are you the same John Crider that filed testimony previously in this proceeding?

A. Yes, I previously filed testimony in this proceeding, marked as Exhibit Staff/300.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to summarize and address issues associated with aspects of PacifiCorp's (Company) Application for Approval of Deer Creek Mine Transaction (Application) relating to the sale of Mining Assets and the Coal Supply Agreement (CSA).

Q. Did you prepare an Exhibit for your testimony?

A. Yes. I've included Exhibit 601, a calculation supplied by the Company as a response to discovery in this proceeding.

Q. How is your testimony organized?

A. The testimony is organized as follows:

<u>Issue 1 – Sale of Mining Assets</u>

1. Summary of Parties' positions
2. Staff's response to Parties' positions

Issue 2 – Coal Supply Agreement

3. Summary of Parties' positions
4. Staff's response to Parties' positions

Summary of Staff Recommendations

Issue 1 – Sale of Mining Assets

Q. Please summarize the Parties' positions with regard to the Company's proposed sale of Mining Assets.

A. In addition to Staff, three Parties provided testimony in these proceedings– Citizens' Utility Board (CUB), Sierra Club and Industrial Customers of Northwest Utilities (ICNU).

CUB supports approval of the sale, with a position that the loss on the sale should be included in a deferral with an offset for costs currently in rates.[1] ICNU does not specifically endorse or reject the sale of assets. However, ICNU claims that the Company did not remove a value representing the return on the mining assets already in rates from its calculation. ICNU proposes an adjustment to account for this portion of return earned by the Company. Sierra Club does not object to the conclusion that closure of Deer Creek mine is in the best interest of customers[2] but remains silent on the Sale of Mining Assets specifically.

Q. What is Staff's response to the Parties' positions?

A None of the Parties object to the sale of Mining Assets as part of the overall transaction. Staff supports the sale of Mining Assets if given the proper ratemaking treatment as discussed in Staff's Opening Testimony.[3] Staff concurs with CUB and ICNU that any amount currently collected in rates based on the Mining Assets should be removed from rates. ICNU estimates this value

[1] CUB/100; Jenks-McGovern/21
[2] Sierra Club/100; Fisher/6
[3] Staff/300; Crider/8

based on the Company's calculation. The Company's calculation is included in Exhibit Staff 601.

Issue 2 – Coal Supply Agreement (CSA)

Q. What is the primary concern among the Parties with regard to the Huntington CSA?

A The primary concern among all Parties regarding the CSA is the risk to ratepayers from being locked into a long-term coal supply contract in the event that either Hunter or Huntington generation plant becomes uneconomic to operate for any reason. Parties want assurance that ratepayers will not pay for unused coal in the event that the cost of the plant's environmental compliance becomes too great or if conversion to natural gas becomes a more economical alternative when compared to continued coal operation. The terms of the CSA require the Company to purchase a minimum amount of coal regardless of plant need. The Company has negotiated an exit clause in the contract which allows exit without damages in the case that new regulations affect the plant's ability to operate. It is unclear among parties exactly which events would trigger the clause, and which would not. It is the uncertainty about the applicability of the clause, and the potential cost of litigation surrounding its interpretation, that represents risk to ratepayers.

Q. Please summarize ICNU's position with regard to the Huntington CSA.

ICNU believes that the CSA is not in the public interest unless adequate protection is provided to ratepayers related to the coal contract potential liabilities.[4]

Q. Please summarize CUB's position with regard to the Huntington CSA.

A. CUB is concerned that the exit clause seems open to interpretation. In CUB's opinion, there remains uncertainty about whether an economic decision to curtail the use of the coal would be considered a qualifying event to exercise the exit clause without incurring damages. CUB believes that there is significant risk associated with the legal interpretation of the contract that may result in the prevention of an otherwise economic shutdown of the plant.[5] CUB will not consider the CSA prudent unless ratepayers are adequately protected from this risk.[6]

Q. Please summarize Sierra Club's position with regard to the Huntington CSA.

A. Sierra Club expressed the same concern as CUB regarding the exit clause in the CSA. Specifically, Sierra Club states that "the Company has not definitively shown that the Huntington CSA would protect customers if the plant becomes non-economic before the close of its contract".[7]

Q. Did Sierra Club raise any additional issues related to coal costs?

A. Yes. Sierra Club raises the concern that the Company's assessment of the market case assumes no carbon regulation costs on coal. Sierra Club suggests

[4] ICNU 100; Mullins/29-30
[5] CUB/100; Jenks-McGovern/10-13
[6] Id. at 13.
[7] Sierra Club; 100, Fisher/6, line 14

an adjustment to the transaction amount. The adjustment is calculated by substituting a Company-supplied coal price forecast that incorporates carbon costs. In addition, Sierra Club notes that the transaction amount does not included a cost for coal blending in years beyond the expiration of the Hunter CSA.

Q. What is Staff's response to Sierra Club's adjustments regarding coal costs?

A. Sierra Club suggests two adjustments to the Company's cost analysis for the transaction case – 1) an increase in cost coal costs due to carbon regulation, and 2) an additional cost for coal blending services after the Hunter CSA expires. Staff contends that both the Company's coal forecast and that proposed by Sierra Club are reasonable. However, Sierra Club's assumption of carbon costs represents a lower risk assumption than the Company's and Staff supports this lower risk assumption. Therefore, Staff supports an adjustment based on carbon costs as calculated by Sierra Club. Regarding the coal blending services, Staff recognizes that the coal blending cost is real and is likely to be incurred. However, this cost is an element used in deriving the price of coal and is subject to negotiation. Staff believes Sierra Club's adjustment for coal blending too speculative to support. In the end, though, adoption of both of these adjustments does not change the outcome that the transaction case remains least-cost when compared to the market case.

Q. Did CUB offer a potential cure to address their concern with the exit clause in the Huntington CSA?

A No. Although CUB clearly stated that they could not find the CSA prudent without this issue being resolved, they did not propose any specific course of action to address the concern.[8]

Q. Did Sierra Club offer a potential cure to address their concern with the exit clause in the Huntington CSA?

A Yes. Sierra Club proposes a detailed four part course of action to resolve this issue: 1) the Company must continue to model the operation of Huntington with the assumption that no penalties are incurred for early termination of the CSA; 2) the Company commits to hold ratepayers harmless for any and all penalties resulting from an early exit from the CSA; 3) the Company commits to operational modeling of the Huntington plant using only the variable cost of fuel as represented in the Huntington CSA; and 4) the Company commits to assess the forward-looking economics of the Huntington units when capital expenditures in excess of $25 million are planned.

Q. What is Staff's response to the Parties' positions with regard to the exit clause of the Huntington CSA?

A Staff shares the concern raised by CUB and Sierra Club that the exit clause might not be broad enough to adequately protect ratepayers.

Q. What is Staff's response to Sierra Club's proposed course of action?

[8] CUB/100; Jenks-McGovern/13

A Staff supports the four actions identified by the Sierra Club as sufficient to provide reasonable protection to ratepayers. Action (2) is a broad protection against additions to ratebase and a restriction on costs subject to deferral and amortization in rates. Actions (1) and (3) exclude costs incurred from penalties from being included in the fuel cost and contributing to net variable power cost. Staff believes that Action (4) is already adequately addressed through the integrated resource plan process but does not object to the specific inclusion here as part of this course of action.

Staff Recommendations

Q. Please summarize Staff's recommendations regarding the sale of Mining Assets.

A Staff recommends approving the sale of Mining Assets conditional on the sale amounts receiving the proper ratemaking treatment as discussed in Staff's response testimony. Staff recommends adoption of an adjustment to the transaction amount that represents a refund to ratepayers equal to the return on the Mining Assets currently collected in rates.

Q. Please summarize Staff's recommendations regarding the approval of the Huntington CSA.

A Staff recommends approval of the Huntington CSA conditional on the mitigation of ratepayer risk. Staff supports adoption of Sierra Club's proposal to mitigate this risk.

Q. Does this conclude your testimony?

A. Yes.

CASE: UM 1712
WITNESS: JOHN CRIDER

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 601

Exhibit in Support
Of Cross-Answering Testimony

March 19, 2015

ATTACHMENT ICNU 3.64
ASSETS SOLD, DISPOSED OR RETIRED AS A RESULT OF THE DEER CREEK MINE CLOSURE

RATE BASE from UE 263 [1]			Pre-Tax Return	Oregon Rev. Req.
	Total Company	Oregon Portion		
Electric Plant in Service				
Coal Mine Assets				
Sold	42,245,429	10,429,016	10.75%	1,121,526
Retired/Disposed	254,533,715	62,836,058	10.75%	6,757,325
Intangible Assets				
Sold	11,706	2,890	10.75%	311
Retired/Disposed	3,431,094	847,025	10.75%	91,088
General Plant				
Sold	64,568	15,940	10.75%	1,714
Retired/Disposed				
Distribution Plant				
Sold	966,545	-	10.75%	-
Retired/Disposed	2,995,576	-	10.75%	-
Accumulated Depreciation				
Coal Mine Assets				
Sold	(22,024,192)	(5,437,053)	10.75%	(584,695)
Retired/Disposed	(150,653,791)	(37,191,499)	10.75%	(3,999,535)
Intangible Assets				
Sold	(7,659)	(1,891)	10.75%	(203)
Retired/Disposed	(2,244,725)	(554,149)	10.75%	(59,593)
General Plant				
Sold	(3,362)	(830)	10.75%	(89)
Retired/Disposed				
Distribution Plant				
Sold	(308,472)	-	10.75%	-
Retired/Disposed	(1,164,419)	-	10.75%	-
Accumulated Deferred Income Tax				
Sold	(21,739,947)	(5,366,883)	10.75%	(577,149)
Retired/Disposed	(6,607,107)	(1,631,079)	10.75%	(175,405)
		TOTAL OREGON "RETURN ON" IN RATES		**2,575,294**

SE Factor from UE-263 Stipulation 24.687%

Notes
(1) UE 263 reflected projected plant balances for the test year. ADIT for these assets from UE 263 is not readily available. Actual ADIT balances are reflected for purposes of this response.

ATTACHMENT ICNU 3.64

Pre-Tax Return from UE-263 Stipulation

Component	Structure	Cost	Weighted Cost	Pre -Tax Return
Long-Term	47.600%	5.250%	2.499%	2.499%
Preferred S	0.300%	5.427%	0.016%	0.026%
Common	52.100%	9.800%	5.106%	8.229%
	100.00%		7.621%	10.754%