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August 1, 2012

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Oregon Public Utility Commission
550 Capitol Street NE, Ste 215
Salem, OR 97301-2551

Attn: Filing Center

**RE: Docket UE 246 – PacifiCorp’s 2012 General Rate Case
Testimony in Support of the Partial Stipulation**

PacifiCorp d.b.a. Pacific Power (“Company”) encloses for filing an original and five copies of the Joint Testimony in Support of the Partial Stipulation by the Stipulating Parties (the Company, the Public Utility Commission of Oregon Staff, the Citizens’ Utility Board of Oregon, the Industrial Customers of Northwest Utilities, and the Kroger Co.). Also enclosed is additional testimony from Public Utility Commission of Oregon Staff supporting the Partial Stipulation. The Partial Stipulation was filed on July 12, 2012.

Please contact Bryce Dalley, Director, Regulatory Affairs & Revenue Requirement, at (503) 813-6389 for questions on this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "William R. Griffith / RBD".

William R. Griffith
Vice President, Regulation

Enclosure

cc: Service List – UE 246

Docket No. UE 246
Exhibit Stipulating Parties/100
Witnesses: Dalley, Garcia, Jenks, Deen & Townsend

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

STIPULATING PARTIES: PUBLIC UTILITY COMMISSION OF OREGON STAFF,
PACIFICORP, D/B/A PACIFIC POWER, THE CITIZENS' UTILITY BOARD OF
OREGON, THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES, AND
THE KROGER CO.

Joint Testimony of Deborah Garcia, R. Bryce Dalley, Bob Jenks,
Michael C. Deen, and Neal Townsend

August 2012

1 **Introduction**

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

3 A. This testimony is jointly sponsored by Staff of the Public Utility Commission of
4 Oregon (Staff), PacifiCorp (PacifiCorp or the Company), the Citizens' Utility
5 Board of Oregon (CUB), the Industrial Customers of Northwest Utilities (ICNU),
6 and Fred Meyer Stores and Quality Food Centers, divisions of The Kroger Co.
7 (Kroger).

8 **Q. Please provide your names and qualifications.**

9 A. Our names are Deborah Garcia, R. Bryce Dalley, Bob Jenks, Michael C. Deen
10 and Neal Townsend. All of us have previously filed testimony in this
11 proceeding. Ms. Garcia's qualifications are set forth in Exhibit Staff/101,
12 Garcia/1; Mr. Dalley's qualifications are set forth in Exhibit PAC/100, Dalley/1;
13 Mr. Jenks' qualifications are set forth in Exhibit CUB/101, Jenks-Feighner/1;
14 Mr. Deen's qualifications are set forth in Exhibit ICNU/101, Deen/1; and Mr.
15 Townsend's qualifications are set forth in Exhibit FM/100,
16 Townsend/Attachment A.

17 **Q. What is the purpose of this Joint Testimony?**

18 A. This Joint Testimony describes and supports the Partial Stipulation filed in this
19 proceeding on July 12, 2012 (Partial Stipulation), between Staff, PacifiCorp,
20 CUB, ICNU, and Kroger (collectively the Stipulating Parties).

21 **Q. Is Staff also filing separate testimony supporting the Partial Stipulation?**

22 A. Yes. Staff is filing separate testimony concurrently with this Joint Testimony.
23 The purpose of Staff's separate testimony is to provide additional information on

1 selected issues in support of the Partial Stipulation.

2 **Q. Has any party objected to the Partial Stipulation?**

3 A. No. Other than the Stipulating Parties, the Sierra Club was the only party that
4 filed testimony and actively participated in settlement conferences. The Sierra
5 Club did not join the Partial Stipulation, but does not object to it.

6 **Background**

7 **Q. Please describe the Company's original request for a general rate revision.**

8 A. On March 1, 2012, PacifiCorp filed revised tariff sheets seeking a base rate
9 increase of approximately \$38.4 million or 3.2 percent. As a result of resetting
10 Schedule 299, the Rate Mitigation Adjustment, to reflect forecast customer loads
11 by rate schedule, the proposed increase to net rates was \$41.2 million, or
12 3.5 percent.

13 **Q. What is the effective date of PacifiCorp's revised tariff sheets?**

14 A. The original effective date was March 31, 2012. Order No. 12-093 suspended the
15 effective date of the tariffs by nine months. The current effective date is
16 January 1, 2013.

17 **Q. What test period did PacifiCorp use in this case?**

18 A. PacifiCorp used an historical base period of the 12 months ended June 2011, with
19 normalizing and pro forma adjustments to calculate a 2013 calendar year future
20 test period.

21 **Q. Did the Company's original filing include a request for a separate tariff rider
22 for rate recovery of the Mona to Oquirrh transmission line?**

23 A. Yes. The Mona to Oquirrh transmission line is projected to be in service in the

1 second quarter 2013. PacifiCorp's filing proposed to delay implementation of the
2 revenue requirement increase related to the Mona to Oquirrh transmission line
3 (\$13.1 million or 1.1 percent on an overall basis) until the line is in service, and to
4 begin recovery of it through a separate tariff rider at that time.

5 **Q. Did other parties in this docket respond to the Company's filing?**

6 A. Yes. Staff, CUB, ICNU, Kroger, and the Sierra Club filed opening testimony
7 responding to the Company's filing by June 20, 2012.

8 **Q. Were settlement conferences convened in this case?**

9 A. Yes. The Stipulating Parties and Sierra Club participated in settlement
10 conferences on May 30, 2012. These same parties participated in additional
11 settlement conferences on June 27 and 28, 2012. Chief Administrative Law Judge
12 Michael Grant's Prehearing Conference Memorandum, dated March 20, 2012,
13 provided notice to all parties of these settlement conferences.

14 **Q. What was the result of these settlement conferences?**

15 A. As the result of the settlement conferences, the Stipulating Parties reached a
16 partial settlement resolving most of the issues in this case.

17 **Q. Please generally describe the scope of the Partial Stipulation.**

18 A. The Stipulating Parties settled all but three specific issues and agreed to an overall
19 base price increase of \$20.7 million, effective January 1, 2013. The issues that
20 were not settled, collectively referred to as Reserved Issues, consist of the
21 following: (1) the prudence of PacifiCorp's investments in environmental controls
22 at its thermal generation plants; (2) PacifiCorp's request for a power cost
23 adjustment mechanism (PCAM), and ICNU and CUB's related testimony on the

Transition Adjustment Mechanism (TAM); and (3) PacifiCorp's proposal to add the Mona to Oquirrh transmission line to its rate base through a separate tariff rider when the line goes into service in 2013.

Agreement on Revenue Requirement Issues

Q. What is the Stipulating Parties' agreement on the Company's revenue requirement increase?

A. The Stipulating Parties agree to a revenue requirement increase of \$20.7 million to resolve all but the Reserved Issues in this case. Exhibit A to the Partial Stipulation demonstrates how the Stipulating Parties agree to resolve specific adjustments to calculate the \$20.7 million revenue requirement increase.

Q. What is the Stipulating Parties' agreement on cost of capital and capital structure for the Company?

A. The Stipulating Parties do not agree on specific values for the various components of capital costs and capital structure. For Oregon regulatory purposes, the Stipulating Parties agree to an overall rate of return (ROR) and notional values of individual cost of capital components to derive this ROR, as reflected in the table below.

| Component | Structure | Cost | Weighted Cost |
|-----------------|-----------|--------|---------------|
| Long-term Debt | 47.60% | 5.322% | 2.533% |
| Preferred Stock | 0.30% | 5.427% | 0.016% |
| Common | 52.10% | 9.800% | 5.106% |
| | 100.00% | | 7.655% |

1 **Q. Does the Partial Stipulation address the Company’s request in this case for**
2 **accelerated depreciation and decommissioning costs related to the early**
3 **retirement of the Carbon thermal generating unit?**

4 A. Yes. The Stipulating Parties do not oppose PacifiCorp’s request to include in
5 Oregon rates the accelerated depreciation and decommissioning costs for the early
6 retirement of the Company’s Carbon thermal generation plant in 2015. These
7 amounts are detailed in Exhibit B to the Partial Stipulation.

8 **Q. Do the Stipulating Parties address the prudence of PacifiCorp’s investment**
9 **in the Black Cap solar resource?**

10 A. Yes. Based upon the testimony PacifiCorp filed on the Black Cap solar resource
11 in this case, the Stipulating Parties agree that the resource is prudent and should
12 be included in PacifiCorp’s revenue requirement. The Stipulating Parties reserve
13 their rights to challenge new costs associated with this resource in the future.

14 **Q. Did the Stipulating Parties reach agreement on the treatment of incremental**
15 **Open Access Transmission Tariff (OATT) revenues associated with**
16 **PacifiCorp’s pending rate case at the Federal Energy Regulatory**
17 **Commission (FERC)?**

18 A. Yes. The Partial Stipulation requires PacifiCorp to file an application for deferred
19 accounting of the Oregon-allocated share of the incremental OATT revenue
20 associated with PacifiCorp’s pending rate case at FERC.¹ This application will
21 seek deferral of incremental OATT revenues from all sources and the intent is to
22 credit OATT revenues to customers without offsets. PacifiCorp will file the

¹ FERC Docket No. ER11-3643-000.

1 deferred accounting application upon approval of the Partial Stipulation. The
2 application will request that the deferral begin on January 1, 2013, and continue
3 until the revenues are included in base rates.

4 **Agreement on Reserved Issues**

5 **Q. How do Stipulating Parties propose to resolve the Reserved Issues?**

6 A. The Stipulating Parties agree to further litigate the Reserved Issues in this case
7 under the procedural schedule adopted on May 30, 2012, and amended on
8 June 14, 2012. This agreement does not expand or limit the Stipulating Parties'
9 existing rights with respect to the continued litigation of these issues.

10 **Q. Please provide a more detailed description of the first Reserved Issue,**
11 **environmental control investments.**

12 A. PacifiCorp is seeking rate recovery of its investments in environmental controls at
13 the following thermal generation plants: Naughton Units 1 and 2, Dave Johnston
14 Unit 4, Hunter Units 1 and 2, Wyodak, and Jim Bridger Unit 3. CUB proposes to
15 disallow 25 percent of the Company's investment in all environmental controls as
16 imprudent or to disallow as not currently used and useful, and the Sierra Club
17 proposes disallowance of the investments in Naughton Units 1 and 2 and Hunter
18 Units 1 and 2 as imprudent. Staff's opening testimony supports the prudence of
19 the Company's investments. ICNU and Kroger did not raise issues related to
20 these investments before settlement, but may address these issues on rebuttal.

21 **Q. Please provide a more detailed description of the second Reserved Issue,**
22 **PCAM/TAM.**

23 A. The Company is proposing that the Commission adopt a PCAM for the Company.

Staff's, CUB's, and Kroger's respective opening testimonies oppose the Company's proposal and recommend alternative PCAM structures. ICNU recommends that no PCAM be adopted for the Company and, if a PCAM is adopted, recommends an alternative structure. ICNU and CUB also filed related testimony recommending that the TAM be eliminated or modified if retained.

Q. Please provide a more detailed description of the third Reserved Issue, Mona to Oquirrh tariff rider.

A. PacifiCorp's Mona to Oquirrh transmission line is expected to go into service in second quarter 2013. The Company filed testimony on the prudence of this investment and requested approval to file a separate tariff rider to begin recovery of the investment when it goes into service. No party filed testimony contesting the prudence of this transmission line, but Staff's and ICNU's opening testimony asserts that the costs should not be included in this case and the use of a tariff rider is inappropriate. CUB and Kroger did not raise issues related to the tariff rider.

Q. Did the Stipulating Parties reach certain agreements related to the Mona to Oquirrh Reserved Issue?

A. Yes. With regard to the Mona to Oquirrh transmission line, the Stipulating Parties agree to the following:

- The Stipulating Parties will not contest the prudence of the decision to build the Mona to Oquirrh transmission line in this case, absent material changes in fact that raise new prudence issues. The Stipulating Parties may address the prudence of the total expenditures on the Mona to Oquirrh transmission line.

- 1 • PacifiCorp agrees to apply the cost of capital included in the Partial
2 Stipulation to calculate the revenue requirement impact of the Mona to
3 Oquirrh transmission line investment. As reflected in Exhibit C to the Partial
4 Stipulation, this reduces the maximum amount to be included in rates in this
5 case to approximately \$12.6 million.
- 6 • If the Commission approves the tariff rider, the Stipulating Parties will have
7 the opportunity to review for prudence PacifiCorp's actual costs for the Mona
8 to Oquirrh transmission line. The Stipulating Parties may challenge costs that
9 are not properly assigned to the project, are imprudent and otherwise subject
10 to challenge under this Partial Stipulation, or exceed the amount included in
11 the PacifiCorp's direct testimony filing in this case (\$380.6 million total
12 company). PacifiCorp agrees to facilitate the Stipulating Parties' review,
13 provide an update on the costs of the investment as of the close of the third
14 quarter in 2012 and provide additional updates upon request.
- 15 • If the Commission approves the tariff rider, the Stipulating Parties agree not to
16 contest the implementation of a tariff rider consistent with the Commission's
17 order and this Partial Stipulation, but retain their right to file for
18 reconsideration or judicial review.
- 19 • PacifiCorp agrees that if the Mona to Oquirrh transmission line is not in
20 service by November 30, 2013, then PacifiCorp will withdraw its tariff rider.
- 21 • If the Commission rejects the tariff rider, PacifiCorp agrees not to file a
22 request for deferred accounting to address the delay in rate recovery for the
23 Mona to Oquirrh transmission line.

- 1 • If the Commission does not conclusively determine the prudence of the
- 2 investment in the Mona to Oquirrh transmission line in this case and/or rejects
- 3 the tariff rider, PacifiCorp may file a general rate case to recover its
- 4 investment. The Stipulating Parties reserve their rights to raise any issues in
- 5 that new proceeding.

6 **Agreement on Rate Spread and Rate Design**

7 **Q. Does the Partial Stipulation address the Rate Mitigation Adjustment**
8 **(RMA)?**

9 A. Yes. The Stipulating Parties agree resetting Schedule 299, the RMA, is necessary
10 in order to reflect forecast customer loads by rate schedule, and that an increase of
11 \$2.8 million is required. This amount will not be affected by the resolution of the
12 Reserved Issues. Including the effect of the RMA, the overall net increase in the
13 stipulation is \$23.5 million.

14 **Q. Please explain how the Stipulating Parties resolved the issue of rate spread.**

15 A. The Stipulating Parties do not agree on the cost of service methodology used to
16 determine rate spread in this case but do agree to the allocation of base and net
17 revenues by rate schedule as presented on page one of Exhibit D to the Partial
18 Stipulation.

19 **Q. Under the rate spread agreed to in Exhibit D to the Partial Stipulation, do**
20 **most customers receive the same approximate rate increase under the Partial**
21 **Stipulation?**

22 A. Yes. As shown on Exhibit D, most customer rate schedules, including residential
23 service, large general service, and agricultural pumping service, will see a

1 2.2 percent rate increase.

2 **Q. Do the Stipulating Parties agree that the Company should use the rate spread**
3 **presented in Exhibit D to the Partial Stipulation in other proceedings?**

4 A. Yes. The Stipulating Parties agree that the Company will use the base rate
5 revenues or applicable functionalized revenue requirement allocation factors
6 presented on page four of Exhibit D as the rate spread allocation factors for rate
7 changes, including the pending TAM filing, Docket UE 245, until the
8 Commission approves new functionalized revenue requirement allocation factors
9 for PacifiCorp in a subsequent general rate case filing.

10 **Q. Did the Stipulating Parties reach agreement on rate design?**

11 A. Yes. The Stipulating Parties agree to the rate design for each rate schedule
12 presented in Exhibit E to the Partial Stipulation.

13 **Other Terms of Partial Stipulation**

14 **Q. Do the Stipulating Parties agree to terms in this Partial Stipulation regarding**
15 **required support for the Partial Stipulation, limitations on its applicability in**
16 **other cases, and specifications on its enforceability?**

17 A. Yes. The Stipulating Parties agree to various terms and conditions for the Partial
18 Stipulation, which are generally consistent with the provisions of other
19 stipulations submitted to the Commission.

20 **Q. If the Commission rejects any part of the Partial Stipulation, are the**
21 **Stipulating Parties entitled to reconsider their participation in the Partial**
22 **Stipulation?**

23 A. Yes. The Partial Stipulation provides that if the Commission rejects all or any

1 material portions of the Partial Stipulation, any Stipulating Party that is
2 disadvantaged by such action will have the rights provided by OAR 860-001-
3 0350(9) and will be entitled to seek reconsideration or appeal of the
4 Commission's Order.

5 **Reasonableness of the Partial Stipulation**

6 **Q. Have the Stipulating Parties evaluated the overall fairness of the Partial**
7 **Stipulation?**

8 A. Yes. Each Stipulating Party has reviewed the calculation of the stipulated
9 revenue requirement and the rates resulting from this increase. The Stipulating
10 Parties agree that the rates resulting from the Partial Stipulation meet the standard
11 set forth in ORS 756.040 and represent a reasonable compromise of the issues
12 presented in this case. The Stipulating Parties also agree that the resolution of
13 other issues in the Partial Stipulation is fair and reasonable.

14 **Q. Does the Partial Stipulation facilitate the efficient resolution of this case?**

15 A. Yes. This case combines traditional revenue requirement issues and other more
16 complex, policy-oriented issues. The Partial Stipulation allows the Stipulating
17 Parties to resolve most of the traditional revenue requirement issues, while
18 reserving the other issues for Commission resolution. The Partial Stipulation
19 permits the Commission and the Stipulating Parties to focus their limited
20 litigation resources on the issues where Commission policy direction would be
21 most beneficial.

1 **Q. What do the Stipulating Parties recommend regarding the Partial**

2 **Stipulation?**

3 A. The Stipulating Parties recommend that the Commission adopt the Partial

4 Stipulation in this proceeding and include the terms and conditions of the Partial

5 Stipulation in its final order in this case.

6 **Q. Does this conclude your Joint Testimony?**

7 A. Yes.

CASE: Docket No. UE 246
WITNESSES: Deborah Garcia,
Matt Muldoon, and Steve Storm

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1300

**Staff Testimony
in Support of the Partial Stipulation**

1 **Q. PLEASE STATE YOUR NAMES, OCCUPATIONS, AND BUSINESS**
2 **ADDRESS.**

3 A. Our names are Deborah Garcia, Matt Muldoon, and Steve Storm. We hold
4 various positions at the Public Utility Commission of Oregon. Our business
5 address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

6 **Q. ARE YOU THE SAME WITNESSES WHO PREVIOUSLY FILED**
7 **TESTIMONY IN THIS PROCEEDING?**

8 A. Yes.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of our testimony is to provide additional information for selected
11 issues in support of the Partial Stipulation and Joint Testimony filed by
12 PacifiCorp d.b.a. Pacific Power (Company), Citizens' Utility Board of Oregon
13 (CUB), Industrial Customers of Northwest Utilities (ICNU), and Staff
14 (collectively, Stipulating Parties). For purposes of this testimony, CUB and
15 ICNU will also be referred to as Intervenors.

16 **Q. HOW DID THE STIPULATING PARTIES CALCULATE THE AGREED**
17 **UPON REVENUE REQUIREMENT INCREASE?**

18 A. As shown on page 1 of the Partial Stipulation Exhibit A, the Company's original
19 proposal was to increase revenue requirement by approximately \$38.4 million.
20 The Stipulating Parties agreed to apply an adjustment of approximately
21 \$17.7 million, resulting in an overall increase to revenue requirement of
22 approximately \$20.7 million.

1 For purposes of supporting the Partial Stipulation, the Stipulating Parties
2 agreed to the adjustment to PacifiCorp's proposed revenue requirement. As
3 each of the Stipulating Parties established its own separate methodology to
4 arrive at a proposed revenue requirement, there was no acceptance of, or
5 agreement with, any Party's methodology by any other Party.

6 **Q. PLEASE PROVIDE A SUMMARY OF THE PROCESS THAT LED STAFF**
7 **TO SUPPORT THE PARTIAL STIPULATION.**

8 A. Staff Review and Analysis

9 A team of eleven Staff members performed a thorough review and analysis of
10 all of the elements in the case that PacifiCorp filed in support of its proposal to
11 increase its revenue requirement.¹ Included in this process was a review of
12 PacifiCorp's responses to the 127 Standard Data Requests that the
13 Commission requires be answered as part of an energy utility's general rate
14 case, as well as consideration of the issues raised in the pre-rate case audit
15 that was conducted by the Corporate Analysis and Water Regulation Program
16 of the PUC and published on December 31, 2011. Further, in the course of the
17 proceeding, Staff issued an additional 214 data requests. Staff also reviewed
18 PacifiCorp's responses to the approximately 190 data requests that other
19 parties submitted in this proceeding. Overall, Staff reviewed PacifiCorp's
20 responses to over 550 data requests.

¹ The elements of a general rate case include base year and test year revenues, operations & maintenance expenses, administrative and general expenses, costs of capital and capital structure, and rate base, as well as miscellaneous policy issues related to the utility.

1 The result of this extensive review and analysis was that in its Opening
2 Testimony, Staff identified specific adjustments to PacifiCorp's proposed
3 revenue requirement, and made recommendations regarding some of the
4 specific policy issues included in PacifiCorp's case.

5 Staff's Opening Testimony

6 Staff's opening testimony recommended that the Commission reduce
7 PacifiCorp's proposed revenue requirement by approximately \$5.6 million
8 related to various expenses and rate base (Miscellaneous Other) and \$24.3
9 million related to Rate of Return, for a total reduction of approximately \$29.9
10 million.

11 Miscellaneous Other Revenue Requirement

12 During the time between when Staff filed testimony and adopted the Partial
13 Stipulation, Staff made two substantive changes to its Miscellaneous Other
14 adjustment as follows.

15 1. Staff reversed its position for the proposed \$2.6 million revenue
16 requirement reduction related to Pension expense (S-4) based on new
17 information from PacifiCorp that allowed Staff to reconcile the calculation for
18 the appropriate expense; and

19 2. Staff reversed its position for the proposed \$565,000 revenue requirement
20 reduction related to Cash Working Capital (S-6) based on additional
21 information provided by PacifiCorp that enabled Staff to agree with PacifiCorp's
22 filed position on this matter.

1 The application of these two changes would result in a modified Staff-
2 proposed revenue requirement reduction of \$2.4 million related to
3 Miscellaneous Other.

4 The Partial Stipulation adopts a \$2.999 million reduction to revenue
5 requirement related to Miscellaneous Other that takes into account the issues
6 raised by other Parties in their respective opening testimonies, as well as those
7 raised by Staff.

8 Staff Conclusion

9 After a review of the other parties' opening testimonies filed in this
10 proceeding, Staff agrees that the revenue requirement reduction related to
11 Miscellaneous Other in the Partial Stipulation results in a reasonable outcome
12 for all of those issues.

13 **Q. HOW DOES THE STIPULATED RATE OF RETURN (ROR) OF**
14 **7.655 PERCENT RELATE TO STAFF'S RECOMMENDED ROR?**

15 A. Figure 1 (following) shows the capital structure, ROR, and the component
16 costs of capital for PacifiCorp as currently authorized, the structure and
17 components requested by the Company, Staff's Opening Testimony with the
18 "point estimate" recommended ROE, Staff's Opening Testimony with the "high-
19 end of recommended range" ROE, and as agreed upon by the Stipulating
20 Parties (for ROR). All values related to PacifiCorp's rate of return other than
21 ROR are "notional," in that the Stipulating Parties do not agree on values for
22 the components of capital costs and capital structure, but do agree on use of

the stipulated values resulting in the 7.655 percent ROR for Oregon regulatory purposes.

Figure 1
Cost of Capital and Capital Structure

| Component | Percent of Total | Cost | Weighted Average |
|---|------------------|--------------|------------------|
| Currently Authorized - Docket No. UE 217 | | | |
| Long Term Debt | 48.7% | 5.960% | 2.90% |
| Preferred Stock | 0.3% | 5.410% | 0.02% |
| Common Stock | <u>51.0%</u> | 10.125% | <u>5.16%</u> |
| | 100.0% | | 8.08% |
| PacifiCorp Requested - Docket No. UE 246 | | | |
| Long-term Debt | 46.9% | 5.372% | 2.519% |
| Preferred Stock | 0.3% | 5.427% | 0.016% |
| Common Stock | <u>52.8%</u> | 10.200% | <u>5.386%</u> |
| | 100.0% | | 7.921% |
| Recommended Range of ROE | | 9.6% - 10.2% | |
| Staff Testimony - "Point Estimate" ROE | | | |
| Long-term Debt | 46.9% | 5.316% | 2.493% |
| Preferred Stock | 0.3% | 5.427% | 0.016% |
| Common Stock | <u>52.8%</u> | 9.400% | <u>4.963%</u> |
| | 100.0% | | 7.472% |
| Staff Testimony - "High end of Recommended Range" ROE | | | |
| Long-term Debt | 46.9% | 5.316% | 2.493% |
| Preferred Stock | 0.3% | 5.427% | 0.016% |
| Common Stock | <u>52.8%</u> | 9.800% | <u>5.174%</u> |
| | 100.0% | | 7.683% |
| Stipulation (values other than Rate of Return are notional) | | | |
| Long-term Debt | 47.6% | 5.322% | 2.533% |
| Preferred Stock | 0.3% | 5.427% | 0.016% |
| Common Stock | <u>52.1%</u> | 9.800% | <u>5.106%</u> |
| | 100.0% | | 7.655% |

The 7.655 percent stipulated ROR is about three basis points *lower* than the ROR calculated using Staff's "high-end of recommended range" ROE of

1 9.8 percent. The stipulated ROR is therefore within the range of ROR values
2 recommended by Staff as reasonable for PacifiCorp in this proceeding.
3 Additionally, the notional ROE value of 9.8 percent is within Staff's
4 recommended range of reasonable ROE values.

5 **Q. WHY DOES STAFF CONSIDER A 5.322 PERCENT COST OF LONG-TERM**
6 **DEBT (LT DEBT) AND A 5.427 PERCENT COST OF PREFERRED STOCK**
7 **REASONABLE IN SETTLEMENT?**

8 A. Using Staff/303 Muldoon/1 as a working model, a 5.322 percent cost of LT
9 Debt incorporates a historically low 4.1 percent coupon rate for the Company's
10 30-year re-priced pro forma debt. Given the recent dramatic drop in 30-year
11 Treasury bond rates, Staff finds the 30-year maturity for this pro forma debt
12 reasonable when coupled with an appropriately low coupon rate.

13 The treatment of preferred stock was consistent with Commission precedent
14 and market rates. Though the Partial Stipulation is silent regarding
15 methodology, the notional values for cost of long-term debt and preferred stock
16 correspond to very low underlying rates and tightly controlled issuance costs,
17 both beneficial to ratepayers.

18 **Q. WHY DOES THE CAPITAL STRUCTURE RECOMMENDED IN STAFF'S**
19 **OPENING TESTIMONY DIFFER FROM THE NOTIONAL CAPITAL**
20 **STRUCTURE IN THE PARTIAL STIPULATION?**

21 A. Staff's focus in settlement negotiations is on whether resulting rates are
22 reasonable. Staff's analysis of PacifiCorp's requested capital structure
23 concluded it was reasonable. Staff considers the notional capital structure in

1 the Partial Stipulation reasonable, when viewed from the perspective of the
2 stipulated 7.655 percent ROR.

3 **Q. ARE RATES RESULTING FROM THE RATE OF RETURN IN THE PARTIAL**
4 **STIPULATION JUST AND REASONABLE?**

5 A. Yes. The 7.655 percent stipulated rate of return, when combined with other
6 elements determining the revenue requirement specified in the Partial
7 Stipulation and the rate effective date of January 1, 2013, results in rates Staff
8 considers to be just and reasonable.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**
10 **PARTIAL STIPULATION?**

11 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document, in Docket UE 246, on the date indicated below by email, addressed to said parties at his or her last-known address(es) indicated below.

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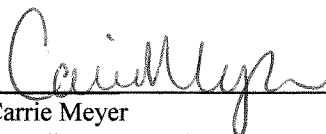
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