Q Please state your name and business address.

A. My name is Daniel C. Peterson. My business address is, One Utah Center, Suite 2300, 201 South Main Street, Salt Lake City, Utah, 84140-2300.

Q. What is your current position at PacifiCorp?

A. I am a Manager in the Regulation Department.

Qualifications

Q. Please briefly describe your education and business experience.

A. I graduated from Bradley University in 1970 with a Bachelor of Science Degree in Accounting, and I received a Master of Public Administration Degree from Brigham Young University in 1977. I joined PacifiCorp (the Company) in 1978 in the Accounting Department where I was a Supervisor responsible for activities such as capital budgeting, cost analysis, and depreciation studies. I continued in that role until 1989 when I assumed my present position. As a Manager in the Regulation Department I am responsible for the calculation and justification of jurisdictional revenue requirements, as well as other studies which may be required in support of regulatory proceedings.

Q. Are you a licensed Certified Public Accountant?

A. Yes. I am licensed in the State of Utah.

Purpose of Testimony

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

A. I will address certain normalizing adjustments contained in Exhibit UP&L___.1 (DDL-1), which is the Company's Utah Results of Operations Report for the twelve-month test period ended December 31, 1999. Specifically, my testimony explains normalizing adjustments 4.6, 4.17 and 4.19 through 4.22 in Tab 4 (O&M expense), the adjustments in

Tab 6 (Depreciation and Amortization), the adjustments in Tab 7 (Tax Adjustments) and adjustments 8.9, 8.14, 8.15 and 8.16 in Tab 8 (Rate Base). As explained by Mr. Doug Larson, the adjustments are presented in pre-tax dollars, where applicable. The tax effect of each adjustment is calculated and reflected on the summary page following each tab.

Normalizing Adjustments

Q. Please explain O&M adjustments 4.6, 4.17 and 4.19 through 4.22 contained in Tab 4.

A. **Uncollectible Accounts** (Adjustment 4.6) – This adjustment normalizes bad debt expense based on 2000 actual experience. Adjustment 4.6 reduces Utah expense by $3,963,820.

Miscellaneous General Expenses (Adjustment 4.17) - This adjustment removes membership and dues expense for the Utah Taxpayers Association and the Utah Manufacturers Association, as well as certain miscellaneous expenses as ordered by the Commission in Docket No. 99-035-10. Adjustment 4.17 reduces Utah expense by $24,950.

Postage Allocation (Adjustment 4.19) – The Commission's order in Docket No. 99-035-10, as modified by the Order on Reconsideration dated October 6, 1999, requires that a portion of postage expense be borne by unregulated activities. This adjustment allocates 1999 postage expense between regulated and unregulated activities in accordance with the Commission order. Adjustment 4.19 reduces Utah allocated expense by $596,846.

Workers' Compensation Amortization (Adjustment 4.20) – This adjustment reflects the second year of a two-year amortization of a one-time adjustment to workers' compensation expense, as ordered by the Commission in Docket No. 99-035-10. Adjustment 4.20 increases Utah expense by $185,032 and increases rate base by $92,516.

Property Insurance Amortization (Adjustment 4.21) – This adjustment reflects the second year of a two-year amortization of a one-time adjustment to property insurance expense, as ordered by the Commission in Docket No. 99-035-10. Adjustment 4.21 increases Utah expense by $961,435 and increases rate base by $480,717.

Noell Kempf Climate Action Project (Adjustment 4.22) – This adjustment amortizes the total actual expenditures on the Noell Kempf Climate Action Project over five years, with the unamortized balance in rate base, as ordered by the Commission in Docket No. 99-035-10. Adjustment 4.22 increases Utah allocated expense by $7,222 and increases rate base by $251,918.

Q. Please explain the depreciation and amortization adjustments summarized under Tab 6, page 6.0.

A. **Correct Accumulated Depreciation Reserve** (Adjustment 6.1) – PacifiCorp began booking increased depreciation expense in Utah beginning in December of 1997 (effective January 1, 1997) and continuing through June of 1998 based on a 1996 depreciation study of the Company's depreciable electric plant. The 1996 depreciation study was not acted upon by the Commission. As a result of booking depreciation expenses based on the 1996 depreciation study, PacifiCorp booked total additional expenses of approximately $29 million Company-wide ($27.6 million excluding Centralia). In the Stipulation approved by the Commission in Docket No. 98-2035-03, the parties agreed that the Company should reverse the booking of the change in depreciation rates based on the 1996 depreciation study. However, this reversal was not recorded in the Company's accounting records until April 2000. Therefore, Adjustment 6.1 is necessary to restate 1999 accumulated depreciation to the proper level. This adjustment reduces Utah accumulated depreciation (thereby increasing rate base) by $6,583,534. In addition the Commission ruled in Docket No. 99-035-10 that the additional depreciation expense associated with Condit not be allowed. This adjustment removes 1997 and 1998 depreciation expense for Condit from the reserve balance increasing Utah rate base an additional $1,451,894.

Depreciation Accounting Adjustment (Adjustment 6.2) - The parties to the Stipulation in Docket No. 98-2035-03 also agreed that Utah's share of the $29 million accounting adjustment (approximately $7 million) would be amortized over 24 months. After removing the Centralia Plant, the adjustment is reduced to approximately $27.6 million total company with $6.5 million allocated to Utah. Adjustment 6.2 is necessary to reflect 12 months of amortization of the $6.5 million Utah accounting adjustment. Adjustment 6.2 reduces 1999 test period Utah depreciation expense by $3,291,767.

Annualized Depreciation Expense (Adjustment 6.3) – The then-current Commission-approved depreciation rates (from Docket No. 93-2035-04) were applied to December 31, 1999 depreciable plant balances to calculate the on-going level of depreciation expense using existing rates. This annualized depreciation expense was compared to the actual expense booked to Account 403 for the same period. This adjustment to booked depreciation expense is necessary to reflect on-going depreciation expense based on the depreciation rates in effect and the depreciable plant balances reflected in the test period. Adjustment 6.3 increases Utah allocated expense by $2,355,741.

Annualized Accumulated Depreciation (Adjustment 6.4) -- Adjustment 6.3 annualized depreciation expense, and any change made to depreciation expense has a direct impact on the accumulated depreciation reserve balance. Adjustment 6.4 is necessary to reflect the impact of adjustment 6.3 on the accumulated depreciation reserve. This adjustment decreases Utah allocated rate base by $ 1,177,870.

New Depreciation Study – Depreciation (Adjustment 6.5) – This adjustment is necessary to reflect test period depreciation expense using the depreciation rates from the Company's new depreciation study that was approved January 6, 2000 by the Commission in Docket No.98-2035-03. The new rates were compared to the existing rates to determine the incremental (or decremental) differences resulting from the new study. The incremental rates were then applied to year-end 1999 plant balances (excluding the Centralia Plant and Mine) to calculate the increase in test period depreciation expense attributable to the new Commission-approved rates. Adjustment 6.5 increases depreciation expense allocated to Utah by $3,939,050.

New Depreciation Study – Accumulated Depreciation (Adjustment 6.6) - Adjustment 6.6 increased test period depreciation expense to reflect the new depreciation rates recently approved by the Commission. This adjustment is necessary to reflect the impact of the increased depreciation expense on the accumulated depreciation reserve. Adjustment 6.6 increases the accumulated depreciation allocated to Utah (thereby reducing rate base) by $1,969,525.

As indicated above, Adjustments 6.1, 6.2, 6.3, 6.4, 6.5 and 6.6 exclude any depreciation expense and accumulated depreciation impacts related to the Centralia Plant and Mine. All depreciation expense and rate base associated with the Centralia Plant and Mine is removed from test period results by Adjustments 8.18 and 8.19.

Q. Please explain the interest and tax adjustments summarized under Tab 7, page 7.0.

A. **Interest True-up** (Adjustment 7.1) – The amount of interest expense included in the test period is a cost of financing rate base through debt securities. Therefore, it is appropriate to synchronize or true up the amount of interest expense with the amount of rate base. This true up was accomplished by multiplying the jurisdiction specific adjusted rate base by the weighted cost of debt. The interest determined in this manner was then compared to the actual interest recorded in 1999 to determine the necessary adjustment. For rate making purposes, interest expense is a deduction in determining income taxes. Therefore, the revenue requirement impact of the interest true up is reflected as a change in income tax expense. Adjustment 7.1 reduces the interest expense allocated to Utah by $610,729 thereby increasing income tax expense by $232,325.

Wyoming Wind Tax Credit (Adjustment 7.2) – This adjustment normalizes a federal income tax credit the Company is entitled to take as a result of placing its Wyoming wind generating plant into service before June 30, 2004. The credit, which is based on the generation of the plant, will expire after June 2004 unless renewed by the federal government. Adjustment 7.2 reduces Utah income tax expense by $750,362.

Q. Please explain Rate Base adjustments 8.9, 8.14, 8.15 and 8.16 contained in Tab 8.

A. **Update Cash Working Capital** (Adjustment 8.9) **–** This adjustment is necessary to true-up cash working capital for the normalizing adjustments made in this filing. Cash working capital is calculated by taking total operation and maintenance expense allocated to Utah (excluding depreciation and amortization) and adding Utah's allocated share of taxes, including state and federal income taxes and taxes other than income. This total is then divided by the number of days in the year to determine the Company's adjusted daily cost of service. The daily cost of service is multiplied by the Company's net lag days to produce the cash working capital. Adjustment 8.9 increases Utah allocated rate base by $21,883,779.

Reverse Accounting Write-Downs Part 1 (Adjustment 8.14), **Part 2** (Adjustment 8.15) and **Part 3** (Adjustment 8.16) – These adjustments remove from 1999 results of operations certain accruals and asset write-downs that are not appropriate for electric operations. The adjustments also reflect a three-year amortization of other one-time write-offs that do relate to electric operations but which should be normalized for ratemaking purposes. Adjustment 8.14 decreases Utah allocated expense by $9,694,067, increases Utah allocated rate base by $1,101,721 and reflects deferred tax effects. Adjustment 8.15 increases Utah revenues by $1,853,197, decreases Utah allocated expense by $1,017,349, increases Utah allocated rate base by $1,124,223 and reflects deferred tax effects. Adjustment 8.16 increases Utah revenues by $181,446, reduces Utah allocated expense by $347,477, increases Utah allocated rate base by $146,170 and reflects deferred tax effects.

Conclusion

Q. In summary what conclusion does your testimony support?

A. My testimony demonstrates that the normalizing adjustments described above are reasonable and necessary to fairly reflect PacifiCorp's 1999 test year results of operations.

Q. Does this conclude your testimony?

A. Yes.