1 Q. Please state your name, business address and present position with PacifiCorp (the
2 Company).
3 A. My name is D. Douglas Larson. My business address is One Utah Center, Suite
4 2300, 201 South Main Street, Salt Lake City, Utah, 84140-2300. My present
5 position is Director, Regulatory Policy.
6 Q. Have you previously submitted pre-filed direct testimony in this proceeding?
7 Yes.
8 **Purpose of Testimony**
9 Q. What is the purpose of your supplemental testimony in this proceeding?
10 A. As Mr. Wright explains in his supplemental testimony, the test period in this case
11 has been updated to twelve months ending September 30, 2000. My testimony
12 presents evidence that, based on its normalized and adjusted results of operations
13 for the twelve months ending September 2000, PacifiCorp is earning an overall
14 return on equity (ROE) in Utah of 2.88 percent. This return is less than the 11
15 percent ROE currently authorized by the Utah Public Service Commission (the
16 Commission) and less than the 11.5 percent ROE required to provide a fair and
17 equitable return for the Company's shareholders. In support of this conclusion, I
18 introduce and describe the Company's Utah Results of Operations Report for the
19 twelve months ending September 30, 2000. The results of operations were
20 prepared in a manner consistent with the Commission's order in Docket 99-035-
21 10 except where noted.
22 **Results of Operations**
23 Q. Please describe Exhibit UP&L ____ (DDL-____).

1 A. Exhibit UP&L ____ (DDL-____) is the Company's Utah Results of Operations
2 Report for the test year ending September 30, 2000. I will hereafter refer to this
3 exhibit as the "results" or the "report".
4 Q. Was the report prepared under your direction?
5 A. Yes.
6 Q. Please describe the contents of this report.
7 A. The results of operations report details revenues, expenses and rate base assigned
8 to the Company's Utah service territory using a rolled-in allocation method. The
9 report provides twelve-month totals for revenues and expenses and expresses rate
10 base as the average of beginning and end-of-year balances. Operating results for
11 the period are presented in terms of both return on rate base and return on equity.
12 The results begin on page 1.0 with a summary of the normalizing adjustments to
13 actual test period results. The unadjusted results (Column 1) are a product of
14 allocation factors derived from weather-normalized loads. Column 2 combines
15 and summarizes the effect of Type 1 Adjustments (normalization for unusual
16 items that occur during the test period) and Type 2 Adjustments (annualization of
17 changes that occurred during the test period) to produce "total adjusted actual
18 results" (Column 3). No Type 3 Adjustments (known and measurable items) are
19 included in this filing. Column 6 shows the increase in Utah revenues that would
20 be required for the Company to earn a 11.50 percent return on equity from its
21 Utah operations. Column 7 reflects the total adjusted results with this revenue
22 increase included. For comparison purposes, page 1.0 reflects returns on rate base
23 and equity for both the unadjusted and normalized results.

1 The unadjusted results allocated to Utah using a rolled-in allocation
2 method are detailed under Tab 2. Supporting documentation for the data in Tab 2
3 is provided under Tabs B1 through B20. The total column of the unadjusted
4 results on page 2.2 corresponds to the actual data recorded in the Company's
5 accounting records. The normalizing adjustments, which are required to smooth
6 the impact of any unusual events which may have occurred during the test period
7 are identified on page 1.1 and further documented under Tabs 3-8. Tab 9 is blank.
8 The calculation of the rolled-in allocation factors is described under Tab 10.
9 Q. What conclusions do you draw from the results of operations summary presented
10 on page 2.2?
11 A. I observe that, as detailed in Column 6 of page 1.0, an overall price increase of
12 $168.6 million would be required to increase the Company's earned ROE to 11.50
13 percent as recommended by Samuel C. Hadaway.
14 **Development of Base Data (Unadjusted Results)**
15 Q. Please explain the process for compiling the base data used in the results.
16 A. The revenue, expense and rate base data which comprise the unadjusted results of
17 operations is extracted directly from the Company's accounting system and has
18 been summarized under Tabs B1 through B20. The extraction process is largely a
19 matter of downloading information from computer files, supplemented by manual
20 inputs.
21 Q. Does the unadjusted base data fairly represent the Company's results of operations
22 for the test period ending September 30, 2000?

1 A. The base data reflects the operating environment and the unique set of
2 circumstances that occurred during the test period ending September 30, 2000. It
3 is a fair depiction of actual results for this period, but it is entirely inadequate as a
4 predictor of on-going Company performance. To adequately reflect results on a
5 going-forward basis, it is necessary to make certain adjustments to reflect normal
6 conditions. These adjustments annualize specific events in the test period or
7 normalize unusual events. The following section uses the term "normalizing
8 adjustment" in a generic sense to refer to both annualization of in-period events
9 and normalization of unusual events.

10 **Normalizing Adjustments**

11 Q. Please describe what you mean by normalizing adjustments.

12 In reporting its results of operations, it is the Company's goal to develop a
13 "typical" test period, free from effects of unusual events. Normalization adjusts
14 for the impact of unusual, non-recurring events. As I indicated earlier,
15 adjustments for unusual items that were booked during the test period are
16 categorized as Type 1 Adjustments in the results of operations report.
17 Normalization also requires an adjustment for the effect of changes that occur part
18 way through the test period. For example, a wage increase that takes place in
19 March should be adjusted to reflect a full twelve-month impact. This type of
20 adjustment is known as annualization and is referred to as a Type 2 Adjustment in
21 the report. The related calculations of interest synchronization and cash working
22 capital associated with these adjustments have also been included.

1 Normalizing adjustments need not be restricted to events that occurred
2 within the test period. Post test period adjustments are referred to as Type 3
3 Adjustments. PacifiCorp has not included Type 3 adjustments in this report.

4 Q. Would you explain each of the normalizing adjustments for the period ending
5 September 30, 2000?

6 A. Yes. The report detail under Tabs 3 through 8 supports the summary sheets on
7 pages 1.1 and the normalized returns on page 1.0. Considerable description for
8 each of the adjustments is provided within the exhibit; however, I believe it will
9 be useful to review these explanations at this point in my testimony. In order to
10 understand why the Company believes that the normalized returns on rate base
11 and equity that have been developed are reasonable predictors of future
12 performance, it is necessary to understand the reasons for the underlying
13 adjustments. I will discuss the Revenue adjustments presented in Tab 3 and
14 certain other adjustments in Tab 4 and Tab 8 as described below. The remaining
15 adjustments in Tabs 4-8 will be addressed by other Company witnesses. For
16 discussion purposes the adjustments will be presented in pre-tax dollars, where
17 applicable. The income tax effect of each adjustment is calculated and reflected
18 on the summary page following each tab.

19 Q. Who are the Company witnesses that describe the other normalizing adjustments
20 in Tabs 4-8?

21 A. Tab 4 (O&M expense) contains 20 individual adjustments. I address Adjustments
22 4.1 through 4.5, 4.7, 4.8, 4.10, 4.13, 4.14 and 4.18. Mr. Peterson presents

1 Adjustments 4.6, 4.9, 4.17 and 4.19. Mr. Weston addresses Adjustments 4.11,
2 4.12, 4.15, 4.16 and 4.20.

3 The Net Power Cost adjustments in Tab 5 normalize revenues and
4 expenses in a manner consistent with normalized operation of production facilities
5 described in Mr. Widmer's testimony. The normalized net power cost developed
6 and explained in Mr. Widmer's testimony is reflected in Adjustment 5.1. Mr.
7 Weston explains how net power cost is reflected in results and also sponsors
8 associated Adjustment 5.2 related to an incremental coal cost discount.
9 Additionally, Mr. Weston sponsors Adjustment 5.4 related to wheeling revenue,
10 and Adjustment 5.6 related to strike amortization costs. Mr. Widmer sponsors
11 Adjustments 5.3 and 5.5 related to sales for resale.

12 The adjustments in Tab 6 (Depreciation and Amortization) and Tab 7 (Tax
13 Adjustments) are explained by Mr. Peterson.

14 Tab 8 (Rate Base) consists of 18 individual adjustments. I will address
15 Adjustments 8.1 through 8.6, 8.8, 8.12, and 8.13. Mr. Peterson will present
16 Adjustments 8.9, 8.14, 8.15 and 8.16. Mr. Weston will address Adjustments 8.7,
17 8.10, 8.11, 8.17, and 8.18.

18 Q. Please explain the revenue adjustments summarized under Tab 3, page 3.0.

19 A. **Weather Normalization** (Adjustment 3.1) – Weather normalization reflects
20 weather or temperature patterns that were measurably different than normal, as
21 defined by 30-year historical studies by the National Oceanic & Atmospheric
22 Administration. Only residential and commercial sales are considered weather
23 sensitive. Industrial sales are more sensitive to specific economic factors. In its

1 order in Docket No. 99-035-10, the Commission required the Company to provide
2 a report documenting its recommendations for the maintenance of, or
3 modifications to, the weather normalization procedure. While progress has been
4 made on the studies necessary for this report, they are not yet complete.
5 Therefore, this adjustment reflects the same normalization procedures used in the
6 99-035-10 case. Adjustment 3.1 decreases test period Utah residential revenues
7 by $160,000 and decreases commercial revenues by $844,000.
8 **Effective Price Change** (Adjustment 3.2) – The price change adjustment
9 annualizes existing contract and tariff changes to reflect a full year of revenues
10 based on the new rates. The annualization is done by comparing actual revenues
11 in the test period to the annualized revenues calculated by applying the new rates
12 in the contracts and tariffs to current energy usage. Adjustment 3.2 results in an
13 increase of $2,327,536 in Utah's allocated share of special contract revenues.
14 This adjustment increases revenues by $15,493,000 to reflect the recent
15 Commission-ordered increase in Utah residential, commercial and industrial
16 tariffs in Docket No. 99-035-10.
17 **Revenue Normalizing** (Adjustment 3.3) – This adjustment normalizes test
18 period revenues by removing prior period revenue adjustments. The adjustment
19 increases Utah situs revenues by $535,000 and decreases its allocated share of
20 revenues from system contracts by $719,176.
21 **SO2 Emission Allowances** Adjustment 3.4) – As I indicated earlier, the
22 Company has included all emission allowance sales made through September
23 2000, utilizing a four-year amortization of the gain from these sales as ordered in

1 Docket 97-035-01. Adjustment 3.4 increases Utah allocated revenues by
2 $1,633,206, reduces rate base by $3,343,111 and reflects deferred tax impacts.
3 **Special Contract Reclassification** (Adjustment 3.5) – During the test period
4 certain retail special contracts from other jurisdictions expired and were replaced
5 with service at tariff rates. These contracts were previously allocated systemwide
6 and the associated loads were excluded from the derivation of the allocation
7 factors. This Adjustment incorporates the loads into the calculation of the
8 allocation factors and assigns the contract revenue to the states in which the
9 service is rendered. Adjustment 3.5 reduces Utah revenues by $7,559,725.
10 **Pilot Revenue** (Adjustment 3.6) – During the test period, the Company received
11 revenues for sales of energy into the pilot customer choice programs of both Puget
12 Sound Power & Light Company in Washington and Portland General Electric in
13 Oregon. This adjustment reassigns those revenues from Washington and Oregon
14 to a system-wide allocation that is consistent with the allocation of the associated
15 costs, thereby increasing Utah revenues by $80,617.
16 **USBR/UKRB Discount** (Adjustment 3.7) – Under long existing contracts with
17 PacifiCorp, the U.S. Bureau of Reclamation (USBR) and the Klamath Basin
18 Water Users' Protective Association (UKRB) receive a reduced price compared to
19 fully tariffed customers. The contracts preserve the Company's interests in three
20 hydro projects on the Klamath River. The reduced irrigation revenues have been
21 treated for accounting purposes as situs revenues of Oregon and California.
22 However, since all customers share in the benefits of the hydro production from
23 these plants, it is appropriate that the costs be shared in the same way. This

1 adjustment treats the discount as a cost of PacifiCorp's entire hydro system rather
2 than as a state specific cost, thereby increasing Utah's allocated share of hydro
3 expense by $2,772,254.
4 **Rental Revenues** (Adjustment 3.8) – This adjustment annualizes sublease
5 revenue for the second floor of the Oregon Square Building and for the sixth and
6 seventh floors of One Utah Center for 2000. The Adjustment also annualizes the
7 increases in lease expense for One Utah Center that began June 1, 2000.
8 Adjustment 3.8 increases Utah allocated revenues by $75,984. The Adjustment
9 also increases lease expense by $47,664.
10 **Guaranteed Merger Credit** (Adjustment 3.9) – In December 1999 the Company
11 recognized for book purposes the merger credit liability. Merger Credits are not
12 included in the revenue requirement calculation. Adjustment 3.9 removes that
13 credit from results which increases Utah revenues by $24,000,000.
14 **Revenue Allocation Correction** (Adjustment 3.10) – During the test period
15 certain Utah retail revenue was inadvertently booked to cost centers that assigned
16 the revenues to improper locations. This adjustment assigns those revenues
17 properly to the Utah jurisdiction. Adjustment 3.10 increases Utah revenues by
18 $11,075,529.
19 Q. Please explain O&M adjustments 4.1 through 4.5, 4.7, 4.8, 4.10, 4.13, 4.14 and
20 4.18 in Tab 4.
21 A. **FAS 106 Deferred Charges** (Adjustment 4.1) – FAS 106 established accounting
22 as well as disclosure standards for employers with post-retirement benefit plans.
23 It requires that post-retirement benefit expenses be recognized while employees

are actively employed and earning these benefits rather than after they have retired. Prior to this new accounting standard, PacifiCorp was accounting for these benefits on a pay-as-you-go (i.e. cash) basis. In Docket Nos. 20000-ET-92-50 and 20001-ET-92-22, the Wyoming Public Service Commission (WPSC) authorized an accrual method of accounting for FAS 106 along with deferral treatment for the difference between accrual and pay-as-you-go for no more than three years and then amortization of the balance over the next seven years. PacifiCorp deferred the difference between the two methods of accounting for these costs January 1993 through December 1995; during that time $9.8 million was deferred as Wyoming's portion of FAS 106 costs. In 1996 the Company stopped deferring this difference and began amortization of the accumulated balance. The deferred costs are now being amortized to Account 929, which is allocated system wide on a System Overhead (SO) allocation factor. Adjustment 4.1 is necessary to correct the allocation of these costs, which should be directly assigned to Wyoming. The Wyoming deferred balance will be completely amortized by the end of 2002. This adjustment was approved in Docket 97-035-10 and decreases Utah expense by $554,894.

FICA Adjustment (Adjustment 4.2) – Adjustment 4.5 annualizes general wage increases effective during the test period. This adjustment reflects the FICA tax increase associated with the annualized General Wage Increase (Adjustments 4.5). Adjustment 4.2 increases Utah tax expense by $83,148.

Early Retirement Adjustment (Adjustment 4.3) – In 1998 PacifiCorp announced an early retirement program, targeted primarily at reducing the number

1 of corporate staff and administrative support personnel. A total of 961 qualified
2 employees opted to take advantage of this program. Those qualified for early
3 retirement were able to begin leaving in April 1998. Adjustment 4.3 amortizes
4 the expense of the program over five years as authorized by the Commission's
5 order in Docket No. 99-035-10, increasing Utah expense by $8,766,941,
6 increasing rate base by $15,976,844 and reflecting deferred tax effects.
7 **Remove LTIP** (Adjustment 4.4) – This adjustment removes the costs of the
8 Company's long-term executive incentive compensation plan, LTIP, from the test
9 period in accordance with the Commission's order in Docket No. 97-035-10.
10 Adjustment 4.4 decreases Utah's expense by $508,244.
11 **Annualized - General Wage Increase** (Adjustment 4.5) – PacifiCorp has several
12 labor groups, each with different effective contract renewal dates. The Company
13 negotiates wage increases with each of these groups throughout the year.
14 Adjustment 4.5 annualizes the effective wage increases received during the test
15 period for labor charged to operation and maintenance accounts. This
16 annualization was calculated by identifying actual wages for each labor group, by
17 month and then applying the negotiated wage increase to the wages for the months
18 prior to the effective contract date. This adjustment restates expense as though the
19 wage increase was effective for the entire test period. No adjustment to rate base
20 was made to reflect the increase in capitalized wages. Adjustment 4.5 increases
21 Utah's allocated share of operating and maintenance expense by $1,342,671.
22 **Pension Adjustment** (Adjustment 4.7) – In 1997 PacifiCorp adopted the method
23 of recognizing pension expense mandated by FAS 87 for financial reporting

1 purposes, resulting in the write-off of the pension regulatory asset. This
2 adjustment reflects one year of a ten-year amortization of the pension regulatory
3 asset and is consistent with the Commission's order in Docket 99-035-10.
4 Adjustment 4.7 increases Utah's allocated share of pension expense by
5 $3,221,547 and reflects the appropriate deferred income tax effects.

6 **Allocation of CSS Costs** (Adjustment 4.8) – During the test period the ongoing
7 support and miscellaneous enhancement costs for the Company's Customer
8 Service System (CSS) were charged to administrative and general expense
9 accounts that are allocated on the System Overhead (SO) factor. This adjustment
10 reverses the allocation of CSS costs on the SO factor, removes one third per
11 Commission order in Docket 99-035-10 and properly allocates the remaining
12 costs on the Customer Number (CN) factor. Adjustment 4.8 reduces Utah
13 allocated expense by $48,600.

14 **California Wind Removal** (Adjustment 4.10) – During the test period some
15 miscellaneous charges associated with a California wind project were
16 inadvertently charged above the line. Adjustment 4.10 removes those costs from
17 results reducing Utah expense by $230.

18 **Implement Customer Service Standards** (Adjustment 4.13) – One of the
19 Company's commitments in connection with the ScottishPower merger was to
20 implement customer service standards in Utah at no additional cost to customers.
21 This adjustment removes costs related to the implementation of these standards
22 from the test period. Adjustment 4.13 reduces Utah allocated expense by
23 $570,498 and reduces Utah allocated rate base by $104,963.

1 **PacifiCorp Trans Adjustment** (Adjustment 4.14) – This adjustment removes all
2 residual costs for the test period. PacifiCorp Trans discontinued corporate air
3 transportation services in May 2000. By removing residual costs, only
4 commercial equivalent costs will be reflected in the test period. The net impact of
5 adjustment 4.14 is to decrease Utah expense by $734,997.
6 **Costs Triggered by Merger** (Adjustment 4.18) – This adjustment amortizes test
7 period costs that were not merger costs, but that were triggered by the merger.
8 These costs relate to transition planning to achieve electric operation efficiencies
9 or the acceleration of stock plans due to the merger. The merger-triggered costs
10 are being amortized over three years for ratemaking purposes. Adjustment 4.18
11 reduces Utah allocated expense by $2,595,915 and increases Utah allocated rate
12 base by $811,223 to reflect the un-amortized balance of these costs.
13 Q. Please explain Rate Base adjustments 8.1 through 8.6, 8.8, 8.12, and 8.13 in Tab
14 8.
15 A. **Environmental Settlement** (Adjustment 8.1) – In 1996 PacifiCorp received an
16 insurance settlement of $33 million for environmental clean-up projects. These
17 funds were transferred to a subsidiary called PacifiCorp Environmental
18 Remediation Company (PERCO). In 1998 PERCO received an additional $5
19 million of insurance proceeds. This adjustment is necessary to reflect the
20 insurance proceeds in the test period as a reduction to rate base. The rate base
21 credit will be reduced or amortized over time as PERCO expends dollars on
22 clean-up costs. Adjustment 8.1 reduces Utah allocated rate base by $10,188,849.

CSS Disallowance (Adjustment 8.2) – This adjustment removes one-third of the Company's investment in its customer service system (CSS) software from the test period, consistent with the Stipulation approved by the Commission in its order dated February 26, 1999 in Docket No. 97-035-01. Adjustment 8.2 decreases Utah allocated rate base by $7,412,095 and expense by $1,098,088.

Trapper Mine Rate Base (Adjustment 8.3) – PacifiCorp owns a 21.47 percent interest in the Trapper Mine, which provides coal to the Craig generating plant. The normalized coal cost for Trapper includes all operating and maintenance costs but does not include a return on investment. This adjustment is necessary to add the Company-owned portion of Trapper Mine plant investment to rate base, since this investment is recorded in Account 123.1 – Investment in Subsidiary Company. Account 123 is not normally a rate base account. The adjustment reflects net plant rather than the actual balance in Account 123 to recognize the depreciation of the investment over time. Adjustment 8.3 increases Utah allocated rate base by $1,917,589.

Bridger Coal Co. Rate Base (Adjustment 8.4) – PacifiCorp owns a two-thirds interest in the Bridger Coal Company, which supplies coal to the Jim Bridger generating plant. The Company's investment in Bridger Coal Company is recorded on the books of Pacific Minerals, Inc. (PMI), a wholly-owned subsidiary. Because of this ownership arrangement, the coal mine investment is not included in electric plant in service. The normalized coal costs for Bridger Coal Company include the operating and maintenance costs of mining, but provide no return on investment. Therefore, this adjustment is necessary to properly reflect the Bridger

1 Coal Company plant investment in test period rate base. Adjustment 8.4 increases
2 Utah allocated rate base by $16,593,861.
3 **Dave Johnston (Glenrock Coal Co.) Mine Closure** (Adjustment 8.5) –
4 PacifiCorp is aggressively pursuing ways to lower fuel costs at all of its facilities.
5 Mine stripping ratios at the Dave Johnston mine have made it difficult to compete
6 with coal from the Powder River Basin. In the past, rail transportation constraints
7 have made the continued operation of the mine the most economic alternative.
8 However, PacifiCorp was able to negotiate a new transportation contract that
9 made purchasing market coal the least cost option. As a result the Dave Johnston
10 mine was closed in October 1999. This closure is ten years earlier than the
11 previously estimated mine life. Early closure means that mine reclamation cost
12 and depreciation expense were under-accrued. Therefore, in December 1997
13 PacifiCorp made an accrual for reclamation, depreciation and employee severance
14 costs to bring the accumulated balances in these accounts to the proper level by
15 the date of mine closure. This issue was presented in Docket No. 97-035-01 and
16 again in Docket No. 99-035-10. In Docket No. 99-035-10, the Commission
17 deferred to the future recovery of the mine write-down but allowed a five-year
18 amortization of the $33 million reclamation expense incurred at the time of the
19 mine write-down to begin in 1998. This adjustment returns the mine asset to rate
20 base, takes an initial year of a five year amortization on the mine assets and a
21 year of a five-year amortization of reclamation costs. It is important to note that
22 the decision to close Dave Johnston mine has resulted in savings in test period
23 fuel costs as a result of the use of Powder River Basin coal. A full year of the fuel

1 savings from these Powder River Basin coal purchases is reflected in the Net
2 Power Cost Study. The Company is requesting the Commission to allow a five-
3 year recovery of the assets written-off, beginning in this filing. Adjustment 8.5
4 increases Utah allocated expense by $4,755,770, adds the remaining unamortized
5 balance of $16,080,201 to rate base and appropriately reflects deferred tax effects.
6 **Computer Mainframe Write-Down** (Adjustment 8.6) – The Company removed
7 one of the mainframes from service in January 1998. In Docket No. 99-035-10
8 the Commission ordered a five-year amortization of these costs. Adjustment 8.6
9 reflects a year of amortization, as authorized by the Commission, increasing Utah
10 expenses by $900,946, increases rate base by $2,477,601 and reflects deferred tax
11 effects.
12 **Software Write-down** (Adjustment 8.8) – The Company's new Systems
13 Applications and Products (SAP) software product replaced several outdated
14 finance, human resources, materials, work management, and project
15 administration software systems. With the installation of new systems, the
16 existing systems became obsolete. In order to complete the amortization of the
17 old software costs, an adjustment was necessary. The remaining unamortized
18 balance was written off in 1997. In Docket No. 99-035-10 the Commission ruled
19 that "SAP was not fully implemented during the test year so expected productivity
20 enhancements have not yet occurred", and the write-off was added back to rate
21 base. SAP was used throughout the test period, and adjustment 8.8 reflects a year
22 of a three year amortization, thus increasing Utah allocated software amortization

1 expense by $858,417, adds the unamortized balance of $1,502,230 to rate base
2 and reflects deferred tax effects.
3 **Amortization of Y2K Cost** (Adjustment 8.12) – The Company has incurred
4 expense for the last three years to ensure that all the Company's computer
5 hardware and software systems were Y2K compliant. The Commission ordered a
6 three-year amortization of those costs in Docket No. 99-035-10. Adjustment 8.12
7 reverses costs incurred during the test period and replaces those with a three-year
8 amortization of Y2K costs incurred during 1998, 1999, and 2000 as authorized by
9 the Commission. This adjustment increases Utah allocated expense by $1,443,518
10 and increases rate base by $2,585,935.
11 **Remove SERP Reserve** (Adjustment 8.13) – Supplemental Executive Retirement
12 Plan (SERP) expense is accrued each year in accordance with the actuarial report.
13 The excess of this accrual over payouts under the plan is recorded as a liability.
14 The SERP reserve liability account was not identified as a rate base deduction in
15 the Company's unadjusted results of operations. Adjustment 8.13 includes the
16 SERP reserve as a rate base deduction to Utah of $7,159,872.
17 **Changes from Docket No. 99-035-10**
18 Q. You indicated earlier that this filing was prepared in accordance with the
19 provisions of the Commission's order in Docket No. 99-035-10 with certain
20 exceptions. Please describe these differences.
21 A. This filing is consistent with the findings of the most recent Commission order
22 with the exception of seven issues that I have identified below. For each of these
23 issues the Company is asking the Commission to adopt a different position than it

1 adopted in Docket No. 99-035-10. Those issues are: (1) the allocation of
2 Account 903 expenses; (2) the development of the System Generation (SG) factor;
3 (3) the amortization of system software write-downs; (4) the amortization of the
4 Glenrock Mine write-off, (5) the normalization of bad debt expense; (6) the
5 inclusion of Condit Hydro Plant removal costs in depreciation expense; and (7)
6 the inclusion of Bridger Coal Company Accounts Receivable.

7 Q. Please explain how the filing in the proceeding departs from the Commission's
8 previous order with respect to the seven issues you have identified.

9 A. I will address each of these issues individually.

10 **Account 903 Expense Allocation**

11 In the Company's last two general rate case filings before this Commission, the
12 Division of Public Utilities (DPU) has raised concerns about the appropriate
13 allocation factor that should be used to allocate costs in Customer Services
14 Account 903. In Docket 99-035-10 the Commission ordered the DPU and the
15 Company to work together to determine the appropriate allocation factor for
16 Account 903 costs before the next rate case. Since the date of the order, Company
17 representatives have met with the DPU, and an approach for reviewing this issue
18 has been discussed. However, this review process has not been completed
19 because both Division and Company staff assigned to the project have been
20 occupied by other pressing issues. Because test period data indicates a
21 relationship between the number of customers served and the incurrence of
22 customer expense, the Company has used the CN factor to allocate Account 903
23 costs in this filing. For example, current data shows that the number of phone

1 calls to the Business Centers that originated in Utah continues to closely track the
2 relative number of customers in Utah, as represented by the CN factor. Use of the
3 CN factor for Account 903 and other customer accounts provides an overall level
4 of Utah customer service expense that is cost-causation based and consistent with
5 prior years' amounts.

6 **Calculation of the System Generation (SG) Factor**

7 In its order in Docket No. 99-035-10 the Commission observed that the SG factor
8 is the weighted average of the System Capacity (SC) factor, a measure of peak
9 load responsibility, and the System Energy (SE) factor, a measure of annual usage.
10 The Commission explained that the SC factor is constructed by identifying the
11 hour when the combined firm retail loads of all jurisdictions attain a maximum for
12 every month of the test year. Each jurisdiction's load is measured in megawatts at
13 the identified peak hour of the month. The monthly peak loads for each
14 jurisdiction are then added together to obtain an annual jurisdiction figure. The
15 SC factor is the ratio of a jurisdiction's annual figure to the total for all
16 jurisdictions.

17 In that same docket, the DPU argued that the SC factor is relatively
18 sensitive to changes in the time of day used to identify the monthly peak. The
19 Division observed that in 1998 all four monthly system winter peaks occurred
20 during the evening, which was a departure from timing of winter peaks in
21 previous years. The Division argued that the calculation of the SC factor in the
22 manner described by the Commission produced an abnormal result in 1998
23 because of this change in the timing of these monthly peaks. On this basis, the

1 DPU proposed to set aside the Commission-approved method of calculating the
2 SG factor and to substitute a "normalized" factor based on the four percent
3 average growth rate in the SC factor from 1992 to 1996. The Company opposed
4 the Division's adjustment, explaining that the 1998 SC and SG factors were
5 consistent with general load growth trends during 1992-1998. Believing that it
6 lacked an appropriate explanation for the deviation of the 1998 SC factor from a
7 1993 to 1997 trend line, the Commission adopted the DPU adjustment.
8 PacifiCorp believes that information from the test period shows the lack of
9 basis for the Division's "normalizing" of the SC factor. In the test period ending
10 September 30, 2000 the Company experienced two winter evening peaks, down
11 from the four evening peaks experienced in 1998 and consistent with the two
12 evening peaks seen in 1997. However, the SC factor calculated by the method
13 described above by the Commission increased from 34.95 percent in 1998 to
14 37.23 percent in the test period. Thus, we see that the SC factor increased from
15 1997 to 1998 when the winter evening peaks increased from two to four and
16 increased again from 1998 to the current test period when the winter evening
17 peaks decreased from four to two. Contrary to the DPU's assertion in the 99-035-
18 10 case, it is now clear that the increase in the SC factor is not due to sensitivity to
19 changes in the time of day used to identify the monthly peak. Rather, as the
20 Company has maintained, the growth in the SC and SG factors has been and
21 continues to be driven by the high load growth on the Utah system, relative to the
22 load growth in the Company's other retail jurisdictions. This explanation is
23 entirely consistent with the construction of the SC factor as explained by the

1 Commission. The fact is that Utah's energy usage has grown by 11 percent and
2 peak usage has grown by 5.5 percent since 1988, which is far more than any other
3 jurisdiction. Indeed, since 1989 the Utah jurisdiction has outgrown all other
4 jurisdictions by more than a two-to-one margin. Based on this continued pattern
5 of load growth, the Company has calculated the SG factor used in this filing in
6 accordance with this Commission's authorized method described in Docket 97-
7 035-04.

8 **Software Write-offs**

9 In Docket No. 99-035-10 the Commission found that the Company's "legacy"
10 software (replaced by SAP) was still used and useful during 1998 and ordered it to
11 be added back to rate base until a better match of cost and benefits could be
12 achieved. SAP was the Company's accounting system for the entire test period.
13 In addition customers have benefited from lower labor costs through the test
14 period from the early retirement program, a part of which was enabled by SAP.
15 Therefore, the Company began a three-year amortization of these obsolete
16 software costs, beginning in the current test period ending September 30, 2000.

17 **Glenrock Mine Cost Write-off**

18 The Commission ruled in Docket 99-035-10 that since reclamation work at the
19 Glenrock Mine had begun during the 1998 test period, the Company would be
20 allowed to begin amortization of those reclamation costs over a five-year period.
21 However, the Commission ruled that the Company could not begin amortization
22 of the rate base in that case because the "primary savings" associated with the
23 purchase of Powder River Basin coal did not occur in 1998. The current filing

continues with the five-years amortization of reclamation costs approved by the Commission and includes a proposed five-year amortization of the rate base. The Company believes this is appropriate since the Glenrock mine was closed in October of 1999 and fuel costs have been normalized to reflect a full year of the Powder River Basin contract coal prices.

Normalization of Bad Debt Expense

In Docket No. 99-035-10 the Commission found that actual 1998 uncollectible expense was problematic and chose to normalize bad debts by using a three-year 1994 through 1996 average. However, in this proceeding the Company has included bad debt expense at a level consistent with 2000 actual experience. In recent years the Company has made a concerted effort to reduce uncollectible accounts, and in 2000 bad debt expense has dropped to a level consistent with the 1994-1996 average. Since recent experience is now consistent with benchmark levels, the Company believes it is appropriate to put aside the historical averaging approach and use the best available current data in determining test period uncollectible expense.

Condit Hydro Plant Removal Cost

In Docket No. 99-035-10 the Commission found that additional depreciation expense accrued in 1998 for the Condit dam removal should be removed from the test period because the removal agreement was signed after the test year and had not been approved. However, the removal agreement was signed and the FERC approval process was initiated in 1999. In addition, on April 1, 2000, new depreciation rates became effective that continues the recovery of Condit dam

removal costs. The effect of the new Commission approved depreciation rates have been annualized in the current test period. Additionally, the first year of a five year amortization of previously disallowed removal costs has been included in the test period.

Bridger Coal Company Accounts Receivable

In its order in Docket No. 99-035-10 the Commission adopted an adjustment proposed by the Committee of Consumer Services to eliminate the Bridger Accounts Receivable from rate base. This adjustment was opposed by both the Company and the DPU. In fact, the accounts payable balance for Bridger Coal Company is included in the updated lead-lag study (December 1998) used to calculate cash working capital in this case. The Bridger Coal Company receivable balance must, therefore, be included in ratebase to offset the lower cash working capital that results from including Bridger's payable balance. For this reason the Company has included the Bridger Coal Company accounts receivable balance in the test period rate base.

Conclusion

Q. In summary what conclusion does your testimony support?

A. My testimony, along with that of Messrs. Peterson and Weston, demonstrates that PacifiCorp's normalized earnings in its Utah service territory supports a price increase of $168.6 million, which is considerably more than the $142.2 million the Company requested in its January 12, 2001 filing.

Q. Does this conclude your testimony?

A. Yes.