Q Please state your name, business address and present position with PacifiCorp (the Company).

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 and my present position is Manager, Revenue Requirement.

Q. Have you previously submitted pre-filed direct testimony in this proceeding?

A. Yes.

Purpose of Testimony

Q. What is the purpose of your supplemental testimony?

A. I address certain normalizing adjustments contained in the Company's Results of Operations Report for the twelve months ended September 2000 which has been filed as an exhibit to the supplemental testimony of Company witness Doug Larson. As discussed in Mr. Wright's supplemental testimony, the updated test period for this case is now the twelve-month period ending September 30, 2000. My testimony explains normalizing adjustments 4.6, 4.9, 4.17 and 4.19 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. 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, 4.9, 4.17 and 4.19 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 $575,942.

Noell Kempf Climate Action Project (Adjustment 4.9) – 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 4.9 increases Utah allocated expense by $65,311 and increases rate base by $249,996.

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 $62,331.

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, 2000, requires that a portion of postage expense be borne by unregulated activities. This adjustment allocates postage expense for the twelve months ended September 30, 2000 between regulated and unregulated activities in accordance with the Commission order. Adjustment 4.19 reduces Utah allocated expense by $149,609.

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 ($28.3 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 accumulated depreciation for the twelve months ended September 30, 2000 to the proper level. This adjustment reduces Utah accumulated depreciation (thereby increasing rate base) by $4,394,505. 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 $2,042,900.

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 would be amortized over 24 months. After removing the Centralia Plant, the adjustment is reduced to approximately $28.3 million total company. Adjustment 6.2 is necessary to reverse the accounting amortization of the $28.3 million and to reflect 12 months of regulatory amortization. Since the new depreciation rates include the recovery of $2 million of Condit Dam removal costs each year, this adjustment also reflects the first year of a five-year amortization of $5.5 million of Condit removal costs previously disallowed by the Commission. Adjustment 6.2 reverses the accounting amortization by increasing Utah-allocated O&M expense by $2,615,132 and substitutes in the regulatory amortization, net of the Condit removal amortization, by reducing Utah-allocated depreciation expense by $3,985,925. Adjustment 6.2 also reduces Utah rate base by $204,290.

Annualized Depreciation Expense (Adjustment 6.3) – The current Commission-approved depreciation rates (from Docket No. 98-2035-03) were applied to September 30, 2000 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 $1,827,484.

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 $ 913,742.

Adjustments 6.1, 6.2, 6.3, and 6.4 exclude accumulated depreciation impacts related to the Centralia Plant and Mine. Accumulated depreciation associated with the Centralia Plant and Mine is removed from test period results in Adjustment 8.18.

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 for twelve months ended September 30, 2000 to determine the necessary adjustment. For ratemaking 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 increases interest expense allocated to Utah by $7,259,088, thereby reducing income tax expense by $2,761,408.

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 $767,856.

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 $15,661,060.

Reverse Accounting Write-Downs Part 1 (Adjustment 8.14), **Part 2** (Adjustment 8.15) and **Part 3** (Adjustment 8.16) – These adjustments remove from test period 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 $7,527,232, increases Utah allocated rate base by $153,130 and reflects deferred tax effects. Adjustment 8.15 increases Utah revenues by $1,401,214, decreases Utah allocated expense by $1,002,878, increases Utah allocated rate base by $416,723 and reflects deferred tax effects. Adjustment 8.16 increases Utah revenues by $667,306, reduces Utah allocated expense by $462,199, increases Utah allocated rate base by $38,051 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 results of operations for the twelve months ended September 30, 2000.

Q. Does this conclude your testimony?

A. Yes.