

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

3 A. My name is J. Ted Weston. My business address is, One Utah Center, Suite 2300, 201  
4 South Main Street, Salt Lake City, Utah, 84140-2300. My present position is Career  
5 Regulatory Consultant, Revenue Requirement.

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

7 A. Yes.

### 8 **Purpose of Testimony**

9 Q. What is the purpose of your supplemental testimony?

10 A. I address certain normalizing adjustments contained in Exhibit UP&L \_\_\_\_\_ (DDL-  
11 \_\_\_\_\_) which is the Company's Results of Operations Report for the twelve months  
12 ended September 2000. As discussed by Mr. Wright in his Supplemental Testimony, the  
13 updated test period for this case is now the twelve-month period ending September 30,  
14 2000. My testimony explains normalizing Adjustments 4.11, 4.12, 4.15, 4.16, and 4.20 in  
15 Tab 4 (O&M expense), the incorporation of Mr. Widmer's Net Power Cost results into  
16 the Utah results of operations as shown in Adjustment 5.1 of Tab 5 (Net Power Cost),  
17 also Adjustments 5.2, 5.4, and 5.6 of Tab 5 (Net Power Costs), and Adjustments 8.7,  
18 8.10, 8.11, 8.17 and 8.18 of Tab 8 (Rate Base). As explained by Mr. Larson, the  
19 adjustments are presented in pre-tax dollars, where applicable. The tax effect of each  
20 adjustment is calculated and reflected on the summary page following each tab.

### 21 **Normalizing Adjustments**

22 Q. Please explain O&M adjustments 4.11, 4.12, 4.15, 4.16, and 4.20 contained in Tab 4.

1    A.    **Customer Service Deposit** (Adjustment 4.11) – The Company pays customers interest  
2           on their service deposits per Utah’s - Electric Service Regulation No. 9. This adjustment  
3           is necessary for the Company to recover the interest paid on deposits. The customer  
4           service deposits are included as a rate base deduction and an estimate for customer  
5           service deposit interest is recognized in cost of service as an offset to the rate base  
6           reduction. Absent this adjustment, the interest true-up (Adjustment 7.1) would nullify  
7           any recovery of service deposit interest. Adjustment 4.11 is consistent with the treatment  
8           authorized by the Commission in Docket No. 99-035-10 and increases expense by  
9           \$136,096 and reduces rate base by \$2,407,109.

10       **BSIP/SAP Expense Adjustment** (Adjustment 4.12) – In 1996 PacifiCorp implemented  
11       the Business System Integration Project (BSIP). The intent of this process was to review  
12       all aspects of the Company’s business processes to implement more efficient means of  
13       doing business. Several changes have been implemented including reductions to  
14       inventories, staff reductions and the combination of software systems. The BSIP/SAP  
15       project includes re-engineering and training costs that were expensed in accordance with  
16       EITF 97-13, beginning in 1997. Re-engineering and training cost were incurred in 1997,  
17       1998, 1999 and 2000. This adjustment amortizes those costs over five years, consistent  
18       with the amortization period for the associated benefits of the early retirement program.  
19       This adjustment is consistent with the treatment authorized by the Commission in Docket  
20       No. 99-035-10. Adjustment 4.12 increases Utah O&M expense by \$910,189, increases  
21       Utah rate base by \$7,300,656, and reflects deferred tax effects.

22       **Sales Expense Adjustment** (Adjustment 4.15) – During the twelve months ended  
23       September 30, 2000, certain sales expenses were inadvertently charged to the wrong

1 FERC accounts. This adjustment transfers sales expense to correct accounts. Adjustment  
2 4.15 has no effect on Utah revenue requirement.

3 **Regulatory Assets Allocation Correction** (Adjustment 4.16) – Adjustment 4.16 reverses  
4 accounting entries in the test period related to regulatory assets and deferred costs created  
5 by the order in Docket No. 99-035-10 as well as the subsequently approved deferral of  
6 upfront transition plan costs. The Company’s proposed ratemaking treatment of these  
7 costs is then presented in the following separate adjustments: 4.3, 4.7, 4.20, 8.5, 8.6, 8.8  
8 and 8.12. This adjustment increases Utah O&M expense by \$13,144,873 and reduces  
9 Utah rate base by \$48,369,269.

10 **Transition Plan Net Savings** (Adjustment 4.20) – Adjustment 4.20 annualizes transition  
11 plan savings realized during the twelve-month period ended September 30, 2000 as if  
12 they had been in effect for the full twelve-month period and nets these against a five-year  
13 amortization of upfront transition costs. Transition plan savings in the test period consist  
14 principally of labor savings achieved through reduced employee levels. Transition costs  
15 consist principally of pension and severance expense. Adjustment 4.20 also increases  
16 rate base by average transition costs remaining unamortized during the test period. This  
17 adjustment reduces Utah O&M expense by \$1,620,522 and increases Utah rate base by  
18 \$6,590,762.

19 Q. Please explain Net Power Cost adjustments 5.1, 5.2, 5.4, and 5.6 contained in Tab 5.

20 A. **Production Cost Study** (Adjustment 5.1) – Actual power costs for the twelve-months  
21 ended September 2000 were \$602 million. Based on the process explained in Mr.  
22 Widmer’s testimony, the costs for this period are normalized and adjusted to \$813 million  
23 on a total Company basis. This is an increase of normalized power costs to the State of

1 Utah of approximately \$140 million compared to the level in current rates. The net  
2 impact of Adjustment 5.1 is to increase Utah revenues by \$364,291,760, with an  
3 offsetting increase in operating expense of \$442,035,162.

4 **Incremental Coal Discounts** (Adjustment 5.2) – Wyodak, Naughton, and Bridger Plants  
5 all have contracts which provide a reduction in cost per ton when certain tonnage levels  
6 are attained. The net power cost study does not consider the tonnage level discounts,  
7 which must be considered to obtain the normalized value. This adjustment reflects  
8 tonnage discounts on normalized tons from the net power cost study. Adjustment 5.2  
9 reduces Utah expense by \$176,823. This adjustment is consistent with the methodology  
10 adopted by the Commission in Docket No. 99-035-10.

11 **Western Area Power Administration (WAPA) Wheeling Contract** (Adjustment 5.4) –  
12 In Docket No. 99-035-10, the Commission imputed revenue to the below market rate for  
13 transmission services to WAPA. Adjustment 5.4 increases Utah revenues by \$2,248,319.

14 **Pittsburgh & Midway Mining Company (P&M) Strike Amortization** (Adjustment  
15 5.6) – PacifiCorp obtains coal for Naughton and Cholla Plants under contract with  
16 Pittsburgh & Midway Mining Company (P&M). P&M workers were on strike from May  
17 29, 2000 through August 2, 2000. During the strike, PacifiCorp incurred approximately  
18 \$7.6 million in additional costs to provide fuel for the two plants. The additional costs  
19 related to coal transportation, natural gas, fuel handling, and coal purchase commitments.  
20 Adjustment 5.6 amortizes these costs over a six year period, the life of the new P&M  
21 labor agreement. The adjustment also increases rate base by average strike costs  
22 remaining unamortized during the test period. This adjustment increases Utah O&M

1 expense by \$275,717, increases Utah rate base by \$1,516,446, and reflects deferred tax  
2 impacts.

3 Q. Please explain Rate Base Adjustments 8.7, 8.10, 8.11, 8.17 and 8.18 contained in Tab 8.

4 A. **Retail Marketing and Trading (RMT) Software Adjustment** (Adjustment 8.7) – This  
5 adjustment removes 50 percent of the RMT Trade System software from test period  
6 results, since it is used for both regulated and non-regulated trading. This adjustment  
7 reduces Utah allocated expense by \$248,648 and reduces Utah allocated rate base by  
8 \$886,070.

9 **Organization Cost** (Adjustment 8.10) - This adjustment is to conform to the agreement  
10 between the Company and the DPU proposing a method for sharing Pacific Power-Utah  
11 Power merger costs between shareholders and customers as communicated to the  
12 Commission in a letter from the DPU dated October 28, 1988. The Pacific Power-Utah  
13 Power merger costs are being subtracted from rate base, including accumulated deferred  
14 tax associated with organizational costs. This adjustment also adjusts tax expense by the  
15 shareholders' 50 percent share of merger costs. This treatment is consistent with  
16 Commission ruling in Docket No. 99-035-10. Adjustment 8.10 reduces Utah rate base by  
17 \$3,848,505 and reflects deferred tax effects.

18 **APS Combustion Turbine Payment** (Adjustment 8.11) – As part of the Cholla Plant  
19 purchase agreement, the Company was obligated to participate in the development of a  
20 combustion turbine with Arizona Public Service (APS). In Docket No. 97-035-01 the  
21 Commission limited recovery of these costs. Adjustment 8.11 decreases Utah rate base by  
22 \$5,066,091, consistent with that Commission decision.

1           **Removal of Centralia Plant and Mine (Non-Power Costs)** (Adjustment 8.17) – This  
2 adjustment removes non-power related costs and revenues associated with the Centralia  
3 Plant and Mine from the test period results of operations. It should be noted that Utah’s  
4 share of the gain from the sale of the Centralia Plant is being amortized in this filing in  
5 accordance with the Commission decision in the Centralia sale case, Docket No. 99-  
6 2035-03. Adjustment 8.17 increases Utah revenues by \$1,762,359, reduces Utah  
7 allocated expense by \$1,399,838, reduces rate base for the unamortized gain by  
8 \$43,145,510 and reflects deferred tax effects.

9           **Removal of Centralia Plant and Mine Rate Base (Non-Power Costs)** (Adjustment  
10 8.18) – This adjustment removes rate base associated with the Centralia Plant and Mine  
11 from the test period results of operations. Adjustment 8.18 reduces Utah allocated rate  
12 base by \$15,468,032 and reflects deferred tax effects.

13   **Conclusion**

14   Q.    In summary what conclusion does your testimony support?

15   A.    My testimony demonstrates that the normalizing adjustments described above are  
16 reasonable and necessary to fairly reflect PacifiCorp’s results of operations for twelve  
17 months ended September 2000.

18   Q.    Does this conclude your testimony?

19   A.    Yes.