

1 Q. Please state your name, business address and position with PacifiCorp dba Utah
2 Power & Light Company (the Company).

3 A. My name is David L. Taylor. My business address is 825 N. E. Multnomah, Suite
4 800, Portland, Oregon, where I am employed as the Cost of Service Manager.

5 **Qualifications**

6 Q. Please briefly describe your education and business experience.

7 A. I received a BS in Accounting from Weber State College in 1979 and an MBA from
8 Brigham Young University in 1986. I have been employed by PacifiCorp since the
9 merger with Utah Power in 1989. Prior to the merger I was employed by Utah Power,
10 beginning in 1979. At the Company I have worked in the Accounting, Budgeting, and
11 Pricing and Regulatory areas. From 1987 to the present I have held several
12 supervision and management positions in Pricing and Regulation.

13 Q. Have you appeared as a witness in previous regulatory proceedings?

14 A. Yes. I have testified on numerous occasions in California, Idaho, Montana, Oregon,
15 Utah, Washington and Wyoming.

16 **Purpose of Testimony**

17 Q. What is the purpose of your testimony?

18 A. I will present PacifiCorp's year end September 2000 functionalized Class Cost of
19 Service Study.

20 Q. Please identify Exhibit UP&L __.1 (DLT-1) and explain what it shows.

21 A. Exhibit UP&L __.1 (DLT-1) is the summary table from PacifiCorp's year end
22 September 2000 Class Cost of Service Study for the State of Utah. It summarizes,
23 both by customer group and by function, the results of the year end September 2000

1 cost study. Page 1 presents results at the Company's year-end September 2000
2 Earned Rate of Return. Page 2 presents the results at the Company's 11.5 % Target
3 Return on Equity. Page 3 shows the results using the return provided by the \$142
4 million requested price increase.

5 Q. Please identify Exhibit UP&L __.2 (DLT-2) and explain what it shows.

6 A. Exhibit UP&L __.2 (DLT-2) shows the cost of service results in more detail by class
7 and by function. Page 1 summarizes the total cost of service summary by class and
8 pages 2 through 6 contain a summary by class for each major function.

9 Q. Please explain how the Cost of Service Study was developed.

10 A. The Class COS Study is based on PacifiCorp's year end September 2000 annual
11 results of operations for the State of Utah filed by D. Douglas Larson. The study
12 employs a three-step process generally referred to as functionalization, classification,
13 and allocation. These three steps recognize the way a utility provides electrical service
14 and assigns cost responsibility to the groups of customers for whom those costs were
15 incurred.

16 Q. Please describe functionalization and how it is employed in the Cost of Service Study.

17 A. Functionalization is the process of separating expenses and rate base items according
18 to utility function. The production function consists of the costs associated with
19 power generation, including coal mining, and wholesale purchases. The transmission
20 function includes the costs associated with the high voltage system utilized for the
21 bulk transmission of power from the generation source and interconnected utilities to
22 the load centers. The distribution function includes the costs associated with all the
23 facilities that are necessary to connect individual customers to the transmission

1 system. This includes distribution substations, poles and wires, line transformers,
2 service drops and meters. The retail services function includes the costs of meter
3 reading, billing, collections and customer service. The miscellaneous function
4 includes costs associated with Demand Side Management, franchise taxes, regulatory
5 expenses, and other miscellaneous expenses.

6 Q. Describe classification and explain how PacifiCorp uses it in the cost of service study.

7 A. Classification identifies the component of utility service being provided. The
8 Company provides, and customers purchase, service that includes at least three
9 different components; demand-related, energy-related, and customer-related.

10 Demand-related costs are incurred by the Company to meet the maximum demand
11 imposed on generating units, transmission lines, and distribution facilities. Energy-
12 related costs vary with the output of a kWh of electricity. Customer-related costs are
13 driven by the number of customers served.

14 Q. How does PacifiCorp determine cost responsibility between customer groups?

15 A. After the costs have been functionalized and classified, the next step is to allocate
16 them among the customer classes. This is achieved by the use of allocation factors
17 which specify each class' share of a particular cost driver such as system peak
18 demand, energy consumed, or number of customers. The appropriate allocation factor
19 is then applied to the respective cost element to determine each class' share of cost.
20 A detailed description of PacifiCorp's functionalization, classification and allocation
21 procedures and the supporting calculations for the allocation factors are contained in
22 my workpapers.

23 Q. How are generation and transmission costs apportioned among customer classes?

1 A. Production and transmission plant and non-fuel related expenses are classified as 75%
2 demand related and 25% energy-related. The demand-related portion is allocated
3 using 12 monthly peaks coincident with the PacifiCorp system firm peak. The energy
4 portion is allocated using class MWhs adjusted for losses to generation level.

5 Q. Are distribution costs determined using the same methodology?

6 A. No. Distribution costs are classified as either demand related or customer related. In
7 this study only meters and services are considered as customer related with all other
8 costs considered demand related. Distribution substations and primary lines are
9 allocated using the weighted monthly coincident distribution peaks. Distribution line
10 transformers and secondary lines are allocated using the weighted NCP method.
11 Services costs are allocated to secondary voltage delivery customers only. The
12 allocation factor is developed using the installed cost of new services for different
13 types of customers. Meter costs are allocated to all customers. The meter allocation
14 factor is developed using the installed costs of new metering equipment for different
15 types of customers.

16 Q. Please explain how customer accounting, customer service, and sales expenses are
17 allocated.

18 A. Customer accounting expenses are allocated to classes using weighted customer
19 factors. The weightings reflect the resources required to perform such activities as
20 meter reading, billing, and collections for different types of customers. Customer
21 service expenses are split between Demand Side Management (DSM) expenditures
22 and other customer service expenses. The DSM expenditures are allocated based on
23 50% demand and 50% energy. The other customer service expenses are allocated on

1 the number of customers in each class. Sales expenses are direct assigned to the
2 residential, commercial and industrial revenue classes and then allocated to rate
3 schedules within the revenue class according to revenue.

4 Q. How are administrative & general expenses, general plant and intangible plant
5 allocated by PacifiCorp?

6 A. Most General plant, intangible plant, and administrative and general expenses are
7 functionalized and allocated to classes based on generation, transmission, and
8 distribution plant. Employee Pensions and Benefits have been assigned to functions
9 and classes on the basis of labor. Costs that have been identified as supporting
10 customer systems are considered part of the retail services function and have been
11 allocated using customer factors. Coal Mine plant is allocated on the energy factor.

12 Q. Are costs and revenues associated with wholesale and non-tariff contracts included in
13 the cost of service study?

14 A. No costs are assigned to wholesale and system allocated retail contracts. The revenues
15 from these transactions are treated as revenue credits and are allocated to customer
16 groups using appropriate allocation factors. Other electric revenues are also treated as
17 revenue credits. Revenue credits reduce the revenue requirement that is to be
18 collected from firm retail customers.

19 Q. Have you included your workpapers?

20 A. Yes. Work papers showing the complete functionalized results of operations and class
21 cost of service detail are included as Exhibit UP&L __.3 (DLT-3). Also included in
22 the workpapers is a detailed narrative describing the Company's functionalization,
23 classification and allocation procedures.

1 Q. Does this conclude your testimony?

2 A. Yes it does.