Docket No. 01-035-01
Thomas F. Peel
Exhibit No. DPU 2.0
June 4, 2001

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	
PacifiCorp for Approval of its	)	DOCKET NO.01-035-01
Proposed Electric Rate Schedules	)	
and Electric Service Regulations	)	

PRE FILED TESTIMONY OF

THOMAS F. PEEL

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

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SUMMARY OF DIRECT TESTIMONY OF
THOMAS F. PEEL
DOCKET NO. 01-035-01

I will present testimony on behalf of the Division of Public Utilities (Division) for the following proposed adjustments in Docket No. 01-035-01: Outside Services, Uncollectible Accounts, Temporary Services, Pension Expense, Pension Deferral, 1998 Early Retirement Costs, Centralia Deferred Taxes; and the Centralia Gain on Sale.

The Division has identified various payments for Outside Services which it believes should be excluded for rate making purposes. This adjustment reduces Utah revenue requirement by approximately $1.2 million.

For the years 1999 and 2000, uncollectible accounts related to Other Accounts Receivable (OAR) exhibited a marked difference from the experience of prior years. The Division's adjustment normalizes test year uncollectible expense to match the consistent results achieved during the years 1996 - 1998. This adjustment reduces Utah revenue requirement by approximately $2.5 million.

The Division normalized temporary services expense to moderate the impact of significant cost increases, incurred in recent years, attributable to early retirement programs, Scottish Power merger, and the implementation of SAP. These levels of costs are not expected to continue. This adjustment reduces Utah revenue requirement by approximately $0.8 million.

Recent actuarial reports show a significant decline in the actuarial pension cost, for the PacifiCorp retirement plan, from $19.7 million to a negative $12.7 million. The Division proposes adjusting test year pension expense to reflect a "zero" cost balance, for the PacifiCorp retirement plan, as opposed to recognition of a negative expense. This adjustment reduces Utah revenue requirement by $2.2 million.

Income taxes, related to the pension deferral, were overstated in the company's Pension adjustment (4.7). This was a result of an inadvertent exclusion of a Schedule "M" item as an offset to deferred tax expense. This adjustment reduces Utah revenue requirement by approximately $2.0 million.

Rate base was overstated for accumulated deferred income taxes, related to the 1998 Early Retirement costs, because a reversal of those taxes was not made in the company's Early Retirement adjustment (4.3). This adjustment reduces Utah revenue requirement by approximately $1.0 million.

The Division believes that a Federal deferred income tax expense, which was included in the company's Centralia adjustment (8.17), should be reversed because it distorts the Centralia tax effects already reflected in the company's unadjusted results of operations. This adjustment reduces Utah revenue requirement by approximately $3.9 million.

The Division is **not** proposing an adjustment relating to the Utah share of the Centralia gain in this case, but the Division is recommending deferral of the gain to be used as a offset against excess purchased power costs incurred by the failure of the Hunter 1 generating unit (Docket No. 00-035-14).

These brief explanations conclude my summary testimony.

PRE FILED TESTIMONY OF THOMAS F. PEEL
DOCKET NO. 01-035-01
JUNE 4, 2001

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas F. Peel, and my business address is the Heber M. Wells State Office Building, 160 East 300 South, Salt Lake City, Utah.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Technical Consultant for the Utah Division of Public Utilities (Division).

Q. HOW LONG HAVE YOU BEEN EMPLOYED BY THE DIVISION OF PUBLIC UTILITIES?

A. I have been employed by the Division since March 6, 1979.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I am a graduate of Brigham Young University with a Masters Degree in Accounting. I am also a graduate of the University of Utah with a Masters of Business Administration (MBA). I have participated in many conferences and seminars dealing with public utility regulation over the years.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?

A. I am a registered Certified Public Accountant (CPA) with the State of Utah.

Q. HAVE YOU PRESENTED TESTIMONY AND EXHIBITS IN PREVIOUS CASES BEFORE THE UTAH PUBLIC SERVICE COMMISSION?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will present testimony on the following Division adjustments: Outside Services, Uncollectible Accounts, Temporary Services, Pension Expense, Pension Deferral, 1998 Early Retirement Costs, Centralia Deferred Taxes, and Centralia Sale Gain.

OUTSIDE SERVICES

(Exhibit Nos. DPU 2.1 & 2.1.1)

Q. PLEASE EXPLAIN THE OUTSIDE SERVICES ADJUSTMENT.

A. An audit of Outside Services was performed by Division Staff which included Mr. Ron Burrup, Ms. Mary Cleveland and myself. Staff discovered various payments for Outside Services that it believes should be excluded for rate making purposes.

The majority of the services being removed relate to the Centralia sale ($1.2 mil.), Oregon SB 1149 (Retail Access) and pilot programs ($.4 mil.), California/Montana/TPC Sales ($.2 mil.), Utah regulatory and corporate restructuring ($.9 mil.), non-regulatory activities ($.2 mil.), and others that will be included in the testimonies of Mr. Burrup and Ms. Cleveland.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY'S UTAH REVENUE REQUIREMENT?

A. It reduces Utah revenue requirement by approximately $1.2 million.

UNCOLLECTIBLE ACCOUNTS

(Exhibit Nos. DPU 2.2 & 2.2.1)

Q. PLEASE EXPLAIN THE UNCOLLECTIBLE ACCOUNTS ADJUSTMENT.

A. In the current rate case, the Division focused on uncollectible accounts related to Other Accounts Receivable (OAR). The Division did not adjust the uncollectible accounts that apply to utility Customer Accounts Receivable, because of the substantial reduction in net write-offs compared to prior years.

In the case of uncollectible accounts for OAR, the Division performed an analysis of write-offs and recoveries for the years 1996 - 2000. Uncollectible results for 1999 and 2000 exhibited a marked difference from the more consistent results of prior years. In fact, the average receivable balances have declined in the years 1999 and 2000 while net write-offs have increased significantly. The Division's adjustment, a reduction of $2.1 million, normalizes test year uncollectible expense for OAR to match the consistent results of prior years (1996 - 1998).

Q. ARE THERE ANY OTHER ADJUSTMENTS TO UNCOLLECTIBLE EXPENSE?

A. Yes. The Division is also proposing to reverse the accumulated deferred income tax (asset) balance, for bad debts, from rate base. Because the Division has been using the net write-off approach for regulatory purposes, which is the same as that used for tax purposes, the rate base recognition of a deferred tax asset of $2.2 is inappropriate.

Q. PLEASE DESCRIBE THE CHANGES TO "OAR" UNCOLLECTIBLE EXPENSE THAT OCCURRED DURING THE FIVE YEAR PERIOD (1996 - 2000) USED IN YOUR ANALYSIS?

A. For the years 1996 - 1998, the average percent of net write-offs to average receivables was .006. The net write-offs to average receivables for 1999 was .086 percent and for 2000 it was .204 percent. During the last two years there has been a significant increase in uncollectible expense related to OAR. The Division is of the opinion that the net write-off experience of 1999 and 2000 represents an anomaly that should not be reflected in rates.

Q. PLEASE DESCRIBE WHAT IS INCLUDED IN "OAR."

A. Other Accounts Receivable does **not** include amounts from customers for utility service or associated companies. It would include amounts receivable, for example, from construction companies for expenses incurred by PacifiCorp as a result of their projects.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY'S UTAH REVENUE REQUIREMENT?

A. It reduces the Utah revenue requirement by approximately $2.5 million.

TEMPORARY SERVICES

(Exhibit Nos. DPU 2.3 & 2.3.1)

Q. PLEASE EXPLAIN THE TEMPORARY SERVICES ADJUSTMENT.

A. This adjustment normalizes temporary services expense to moderate the impact of significant cost increases incurred during the 1997 - 2000 time frame. The Division believes that the increase in expense is attributable to early retirement programs, the Scottish Power Merger, and the implementation of SAP. The Division believes that the events of recent years has influenced the significant increase in the use of temporary service employees. Many of the individuals used as "temporaries" are former employees of the company.

Q. DO YOU EXPECT THESE COST INCREASES, IN TEMPORARY SERVICES, TO CONTINUE IN THE FUTURE?

A. No. Temporary services expense has increased steadily from 1995 ($1.6 million) to 1999 when it peaked at $6.9 million. In the year 2000, the level of expense shows a decline to $4.5 million, a $2.4 million reduction. For regulatory purposes, the Division estimates what it believes to be a reasonable expense level for temporary services of $2.9 million, which is based on an average expense level for the years 1995 - 1998.

Q. HAVE OTHER REGULATORY JURISDICTIONS EVALUATED THIS ISSUE?

A. Yes. In the Oregon rate case (UE 116) there was a stipulation between the Oregon staff and PacifiCorp to a reduction in the Oregon revenue requirement of $0.6 million for a temporary services disallowance.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY'S UTAH REVENUE REQUIREMENT?

A. It reduces the Utah revenue requirement by approximately $0.8 million.

PENSION EXPENSE
(Exhibit No. DPU 2.4)

Q. PLEASE EXPLAIN THE PENSION EXPENSE ADJUSTMENT.

A. The PacifiCorp retirement plan actuarial report, for the period 4/1/00 - 3/31/01, shows a significant decline in the actuarial pension cost from $19.7 million to a negative $12.7 million. For regulatory purposes, the Division is proposing that booked pension expense be reduced to reflect a "zero" cost balance, for the PacifiCorp retirement plan, as opposed to recognition of a negative expense. This adjustment reduces Utah pension expense by $2.2 million and rate base by $0.4 million.

Q. IS THERE ANY PRECEDENT FOR RECOGNIZING NEGATIVE PENSION EXPENSE FOR REGULATORY PURPOSES?

A. Yes. In the 1980's negative pension expense was recognized in several U S West rate cases. Recognition of negative pension expense raises the issue of whether a pension asset should be allowed in rate base. This issue was argued extensively in the U S West cases and resulted in much confusion.

Q. HAVE ANY OTHER JURISDICTIONS CONSIDERED THE ISSUE OF HOW TO TREAT PENSION EXPENSE UNDER THE SITUATION OF A FULLY FUNDED PENSION PLAN?

A. The Oregon staff is also looking at this issue in its current rate case (UE 116). Based on discussions with the Oregon staff, it was indicated that staff is considering an adjustment to pension expense to reflect a "zero" cost balance, rather than recognition of a negative expense.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY'S UTAH REVENUE REQUIREMENT?

A. It reduces the Utah revenue requirement by approximately $2.2 million.

PENSION DEFERRAL

(Exhibit No. DPU 2.5)

Q. PLEASE EXPLAIN THE PENSION DEFERRAL ADJUSTMENT.

A. This adjustment corrects an overstatement of deferred income tax expense resulting from the exclusion of a Schedule "M" item in the company's Pension adjustment (4.7). If the Schedule "M" of $8.7 million had been included, the tax effects of timing differences between tax deductibility and book recognition of expense would have "zeroed" out. Because of the lack of a Schedule "M," deferred income tax expense is overstated by $3.3 million (total company) and $1.2 million (Utah).

In order to “zero” out the tax effects due to timing differences, the Division simply reversed the $3.3 million deferred tax expense in the company’s Pension adjustment (4.7).

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY’S UTAH REVENUE REQUIREMENT?

A. It reduces the Utah revenue requirement by approximately $2.0 million.

1998 EARLY RETIREMENT COSTS

(Exhibit No. DPU 2.6)

Q.PLEASE EXPLAIN THE 1998 EARLY RETIREMENT COSTS ADJUSTMENT.

A. This adjustment corrects the rate base for accumulated deferred income taxes, of $18.9 (total company) and $7.0 million (Utah), that should have been reversed in the company’s in the company’s 1998 Early Retirement adjustment (4.3). If this correction is not made, accumulated deferred income taxes, for early retirement costs, would essentially be duplicated in rate base.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY’S UTAH REVENUE REQUIREMENT?

A. It reduces the Utah revenue requirement by approximately $1.0

million.

CENTRALIA DEFERRED TAXES

(Exhibit No. DPU 2.7)

Q. PLEASE EXPLAIN THE CENTRALIA DEFERRED TAXES ADJUSTMENT.

A. This adjustment eliminates a Federal deferred income tax expense of $11.7 million (total company) and $2.4 million (Utah) which the company included as part of its Centralia adjustment (8.17).

Based on discussions with PacifiCorp staff and analysis of the deferred tax accounts, the Division has concluded that the deferred tax expense should be reversed, because it would distort the Centralia tax effects already reflected in the company's unadjusted results of operations. To include this item in the current case would overstate income taxes.

Q. WHAT IS THE IMPACT OF THIS ADJUSTMENT ON THE COMPANY'S UTAH REVENUE REQUIREMENT?

A. It reduces the Utah revenue requirement by approximately $3.9 million.

CENTRALIA GAIN ON SALE

Q. BASED ON ITS AUDIT, WHAT HAS THE DIVISION CONCLUDED ABOUT THE CENTRALIA GAIN ON SALE?

A. As a result of its audit, the Division found that (1) the amount of gain, allotted to Utah, is slightly higher than what is reflected in the company's filing, and (2) the Division concludes that the amortization period should be shortened from the 23 years previously approved by the Commission in Docket No. 99-035-10.

Q. PLEASE EXPLAIN THE INCREASE IN THE AMOUNT OF THE UTAH SHARE OF THE GAIN.

A. The final accounting of the Centralia Sale resulted in an increase to the Utah share of the gain from approximately $27.2 million, which is being amortized in the company's filing, to $29.5 million for an increase of $2.3 million. After tax gross-up, the amortizable amount of gain increases from $44.1 million to $44.8 million, an increase of $3.7 million.

Q. IS THE DIVISION PROPOSING AN ADJUSTMENT FOR THE CENTRALIA GAIN ON SALE IN THE CURRENT RATE CASE?

A. No. The Division has not adjusted the amount at this time. However, the Division is recommending that the Utah share of the Centralia gain be deferred as an offset against the excess purchased power costs incurred by the failure of the Hunter 1 generating unit (Docket

No. 00-035-14). The remainder of excess power costs may be recovered over some period of time, perhaps three to five years. In essence, this procedure shortens the amortization period over which the Centralia gain is recognized for rate making purposes, thereby allowing it to be used as an offset against the unprecedented high prices in the western wholesale power market.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THIS MATTER?

A. Yes. If the Commission defers the Centralia gain to the Hunter 1 deferral Docket No. 00-035-14, it should consider reversing the portions of the company's adjustment 8.17 that includes a 1/23rd amortization of the Centralia gain. This would increase the company's revenue requirement by approximately $5+ million. This would avoid the problem of deferring the Centralia gain to another docket while including amortization of the gain in the current docket.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.