Docket No. 01-035-01
Mary H. Cleveland
Exhibit No. DPU 3.0
May 31, 2001

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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| In the Matter of the Application of PacifiCorp | ) | |
| for an Increase in its Rates and Charges | ) | DOCKET NO. 01-035-01 |

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PRE FILED TESTIMONY OF

MARY H. CLEVELAND

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

May 31, 2001

## I. QUALIFICATIONS

**Q. PLEASE STATE YOUR NAME FOR THE RECORD.**

**A.** Mary H. Cleveland

**Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS ADDRESS?**

**A.** I am employed by the Utah Department of Commerce, Division of Public Utilities (Division). My business address is 160 East 300 South, Suite 400, Salt Lake City, Utah, 84114.

**Q. WHAT IS YOUR POSITION?**

**A.** Utility Regulatory Analyst.

**Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

**A.** I hold a Bachelor of Business Administration, as well as a Master of Business Administration, from the University of Missouri-Kansas City. I am a licensed Certified Public Accountant (CPA) in the state of Kansas and I am a member of the Institute of Certified Public Accountants. In addition I have attended the National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Accounts meetings and have served on the NARUC Securities and Exchange Commission (SEC) Subcommitte.

I have approximately twenty years of utility regulatory experience, both as a consultant and as an employee of state regulatory agencies. I have participated in regulatory proceedings in the states of Alaska, Arizona, Connecticut, Kansas, Missouri, New Mexico, Ohio, Utah and Wisconsin. I have also testified before the Kansas Supreme Court. Further details regarding my background are provided in Exhibit No. DPU 3.1.

## II. PURPOSE OF TESTIMONY

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

**A.** My testimony encompasses three areas: Revenues, affiliated transactions and miscellaneous general expenses. I address PacifiCorp's (Company) proposed adjustments to, and treatment of, special contract customer revenues, merger related costs, the closing of PacifiCorp Trans, corporate charges and allocations, and the allocation of SAP and I/T costs between regulated and non-regulated operations. I discuss the Company's recently installed SAP system from a regulatory viewpoint. In addition, I address various miscellaneous general expenses, including out of period charges, economic development expenditures, regulatory costs, dues and donations and lobbying expenditures.

## III. REVENUES

**Q. ARE YOU PROPOSING ANY FURTHER ADJUSTMENTS TO SPECIAL CONTRACT REVENUES?**

**A.** Yes. I'm proposing further adjustments to the Company's effective price change (tab 3.2), revenue normalizing adjustment (tab 3.3) and special contract reclassification (tab 3.4).

### A. Effective Price Change

**Q. WHAT IS THE PURPOSE OF THE COMPANY'S EFFECTIVE PRICE CHANGE ADJUSTMENT?**

**A.** The Company's effective price change adjustment recalculates revenues to reflect rates currently in effect. The adjustment represents the difference between the recalculated revenues and the Company's normalized revenues.

**Q. WHAT ADJUSTMENT(S) HAVE YOU MADE TO THE COMPANY'S EFFECTIVE PRICE CHANGE CALCULATION?**

**A.** I have revised the Company's calculation for a special contract firm customer which changed from a fixed rate to a market based rate during the test period. This customer's energy charge is currently based on the California Oregon Border (COB) weighted on-peak and off-peak prices during the billing period. The Company recalculated the customers revenue using actual non-firm COB weighted on-peak off- peak prices during the test period assuming a weighting of 2/3 on-peak and 1/3 off-peak. I have recalculated the revenues for this particular customer using actual firm COB weighted on-peak off- peak prices as well as actual on-peak, off-peak KW during the billing period.

This is a firm special contract customer and therefore the firm COB on-peak, off-peak prices should have been used to recalculate the customer's revenues, not the non-firm COB indexes. Additionally since this customer's energy rate is determined by the actual weighted on-peak and off-peak usage during the billing period, the customer's actual on-peak and off-peak KW should have been used to determine the rate, rather than an assumed on-peak and off-peak usage.

In addition to adjusting the revenue calculation for this particular special contract firm customer, I have also made an adjustment to the Company's revenue normalizing adjustment which also indirectly impacts the effective price change calculation, as the effective price change calculation represents the difference between the recalculated revenues and the normalized revenues. The combined effect of these adjustments increases the total company number for Special Contract Firm shown on Tab 3.2 in the Company's Results of Operations from $5,280,000 to $7,472,361, an increase of $2,192,361. The net result is an increase in Utah jurisdictional revenues of $ 815,172. Refer to Exhibit No. DPU 3.2.

**B. Revenue Normalizing Adjustments**

**Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S REVENUE NORMALIZING**

**ADJUSTMENT?**

**A.** The Company's revenue normalizing adjustment removes non-reccurring charges and credits recorded during the test period. It also adjusts the revenues of certain special contract customers who's revenues were recorded one month in arrears to reflect actual revenues earned during the test period. For those customers, revenues earned for usage during September 1999 that were not recorded until October 1999, were removed from the test period and revenues earned for usage during September 2000 that were not recorded until October 2000, were included in the test period.

Additionally, the Company's adjustment corrects the improper recording of revenues received from special contract customers. During the test period the revenues attributed to several situs special contracts were recorded as system wide revenues and therefore allocated to all jurisdictions rather than assigned situs to the special contract customer's jurisdiction.

**Q. WHAT ADJUSTMENT(S) DID YOU MAKE TO THE COMPANY'S REVENUE NORMALIZING ADJUSTMENT?**

**A.** The Company failed to adjust the revenues of a special contract customer who's revenues were recorded one month in arrears. For this particular customer, I removed the revenue earned for usage during September 1999 and included the revenue earned for usage during September 2000. This adjustment increased the total company Special Contract Firm shown in Tab 3.3 of the Company's Results of Operations from ($639,000) to ($98,000), an increase of $541,000. The net result is an increase in Utah jurisdictional revenues of $200,947.

In addition, I corrected an error in the Utah Allocated amount shown for Industrial revenues on Tab 3.3 of the Company's Results of Operations. Although these revenues were situs to Utah, the Utah Allocated column only included $80,000 of the $1,963,000 total. This correction increases Utah jurisdictional revenues $1,883,000.

Both of these items are reflected on Exhibit No. DPU 3.3.

**Q. YOU STATED EARLIER THAT YOU MADE A REVENUE NORMALIZING ADJUSTMENT THAT IMPACTED YOUR RECALCULATION OF THE EFFECTIVE PRICE CHANGE. HOW DID EACH OF THESE ADJUSTMENTS AFFECT THE EFFECTIVE PRICE CHANGE?**

**A.** The error correction to the Utah Allocated amount shown for Industrial revenues had no impact on the calculation of the effective price change, since the total company amount was not changed. The adjustment to the special contract customer reduced the effective price change calculation by $541,000, since the adjustment represents the difference between the recalculated revenues and the normalized revenues.

**C. Special Contract Reclassification**

**Q. PLEASE DESCRIBE THE COMPANY'S SPECIAL CONTRACT RECLASSIFICATION.**

**A.** The Company's adjustment is described as removing revenues that were system allocated for some of the system special contracts that expired *during the test period* and returned to tariff rates.

**Q. IS THIS AN ACCURATE DESCRIPTION OF THE COMPANY'S ADJUSTMENT?**

**A.** No, as a matter of fact no system special contracts expired during the test period as originally claimed by PacifiCorp. Nor, does the Company's adjustment limit itself to system special contracts which have expired.

The Company's adjustment removes the revenues of one system special contract that did not expire until December 31, 2000, not within the test period. In addition, the adjustment also duplicates the adjustment made for the improper recording of revenues from several situs special contracts as system wide revenues, included in the Company's previously described normalizing adjustment.

**Q. WHY DID THE COMPANY CHOSE TO ADJUST FOR THE SYSTEM SPECIAL CONTRACT THAT EXPIRED SUBSEQUENT TO THE TEST PERIOD?**

A. In response to DPU Data Request No. 11.4, the Company stated:

> At the time new prices from this rate case go into effect, . . . will be on standard tariff. Therefore it was decided to treat . . ., and any other similarly situated customers, as situs, tariff

> customers in the normalized results of operations. Just as . . . revenues have been assigned to Wyoming, . . . loads, and therefore any associated costs, have also been assigned to Wyoming.

Thus, the Company made the adjustment not because the special contract expired during the test period, as claimed on its filed exhibit, but rather because the special contract would have expired by the time new prices from this rate case go into effect.

**Q. DID THE COMPANY MAKE ADJUSTMENTS FOR ANY OTHER CHANGES THAT WILL OCCUR BY THE TIME NEW PRICES FROM THIS RATE CASE GO INTO EFFECT?**

**A.** No, and this is problematic since by the time rates determined under this docket do go into effect there are likely to be numerous changes. It would not be appropriate ratemaking to account for one single item without taking into account all others changes which will occur up to the time new rates go into effect.

**Q. DOES THE EXPIRATION OF THIS PARTICULAR SPECIAL CONTRACT SIGNIFICANTLY IMPACT THE COMPANY TO THE EXTENT THAT IT WOULD CAUSE FINANCIAL HARM IF NOT RECOGNIZED?**

**A.** No. This customer has not left the system. The customer’s special contract expired

December 31, 2000, and it continues to take service under a tariff rate.

**Q. ARE YOU RECOMMENDING REJECTION OF THE COMPANY'S SPECIAL CONTRACTS RECLASSIFICATION?**

**A.** Yes. As mention previously the Company's adjustment duplicates the correction for the improper recording of revenues for several situs special contracts made in the Company's revenue normalizing adjustment. Additionally, it reassigns revenues from a special contract, which did not expire during the test period, from system wide to situs, merely because the customer would be on a tariff rate when the rates determined under this docket went into effect. As mentioned previously the customer's change to a tariff does not significantly impact the Company and other similar changes are likely to take effect prior to the time rates determined under this docket go into effect. It is not appropriate to recognize a single item occurring outside the test period without taking into consideration all post test year changes.

Rejection of this adjustment increases Utah jurisdictional revenues $7,559,725. However, Utah jurisdictional expenses also increase since this customer's loads are no longer situs to Wyoming, resulting in a greater portion of the Company's expenses being allocated to Utah. Refer to Exhibit No. DPU 3.4.

## IV. MERGER RELATED COSTS

**Q. WHAT SPECIFIC TERM(S) OF THE STIPULATION ADOPTED BY THE UTAH PUBLIC SERVICE COMMISSION (COMMISSION) IN DOCKET NO. 98-2035-04**

**ADDRESS MERGER RELATED COSTS?**

**A.** Merger related costs are addressed in Terms 3 and 26 of the Stipulation entered into among PacifiCorp, ScottishPower, the Division of Public Utilities and the Committee of Consumer Services in Docket No. 98-2035-04, which was attached as Appendix 1 to the Commission's Order. Term 3 addresses merger transaction related costs and Term 26 addresses any premium paid by ScottishPower for PacifiCorp stock.

Term 3 reads as follows:

> "No merger transaction related costs shall be allowed in rates. Enhancements to severance costs relating to the merger will not be allowed in rates. Normal severance costs may be considered for allowance in rates. Future costs arising as a result of the transaction plan which result in net cost savings may be considered for allowance in rates. ***The Applicants agree that they will not in any future rate case in Utah argue for inclusion in rates of any of the items described in Attachment 2.*** " (Refer to Appendix A)

Term 26 reads as follows:

> "Rates will be set based upon original and not revalued costs. Any premium paid by ScottishPower for PacifiCorp stock will be disregarded for ratemaking purposes."

**Q. HAS THE APPLICANT COMPLIED WITH TERMS 3 AND 26 OF THE STIPULATION?**

**A.** No, it has failed to comply with Term 3. In this rate case the Applicant has included the amortization of merger related costs, identified on Attachment 2 to the Stipulation, above the line, although it did not identify those costs as being merger related, but rather labeled them as being costs triggered by the merger related to transition planning to achieve electric operational efficiencies. Included as a lump sum of $10,502,000 in the Company's filing on Tab 4.18, Costs Triggered by Merger, these costs were identified by the Company in response to DPU Data Request No. 2.20 as follows:

| | |
|---|---|
| Special Bonuses non Merger-Related | $2,388,000 |
| Severance Accrual for Officers & Employees | $2,984,000 |
| Additional Severance Accrual | $2,100,000 |
| I/T Severance Accrual | $1,000,000 |
| Acceleration of Restrict Stock Plans | $1,630,000 |
| Acceleration of Non-Employee Director Stock (paid in cash instead of stock) | $ 400,000 |

Further investigation revealed that two of these items, the additional severance accrual and I/T severance accrual were not incurred, reversed on the Company's books and should not have been included in the Company's adjustment. The remaining items either are merger transaction related costs specifically addressed in Attachment 2 of the Stipulation, or costs for which the Company has failed to provide adequate support or documentation to indicate that they are in fact not merger related.

**A. Special Bonuses**

**Q. WHAT IS THE NATURE OF THESE SPECIAL BONUSES AND WHEN WERE THEY ESTABLISHED?**

**A.** Prior to the merger the PacifiCorp Board of Directors established change in control provisions providing for enhanced severance payments to certain executives, accelerated vesting of PacifiCorp stock plans, enhanced supplemental retirement benefits, retention incentives, as well as bonus incentives. These bonus incentives, referred to as "special bonuses" in this docket, were to provide recognition and rewards for employees expected to make, and making, extraordinary efforts to accomplish the goals and objectives of PacifiCorp, which may or may not be related or conditional upon successful completion of the merger. Per the Stipulation, any of these bonuses made in connection with the successful completion of the merger would be below the line and not recoverable from ratepayers in any future rate case.

Although the Company has stated that the special bonuses it seeks to recover in this docket are not merger related, it has failed to provide any documentation to support its claim, other then to so state. DPU Data Request No. 18.1, requested a listing by employee or employee group of the special bonuses the Company is seeking to recover along with the meritorious achievement for which the award was given. In response we received a listing of special bonuses awarded by employee title, which was substituted for the employee's name. No reason for granting the special bonus was stated. The Company has the burden of proof to demonstrate that the special bonuses it seeks to recover are in fact not merger related. In the absence of this proof, we recommend these bonuses denied recovery.

**B. Severance Accrual for Officers & Employees**

**Q. WHAT ARE THESE SEVERANCE COSTS?**

**A.** In response to DPU Data Request No. 2.20, the Company described these as severance for employees whose jobs were eliminated or substantially changed as a result of the merger. In a follow-up request, DPU Data Request No. 18.1, the Company was asked to provide a listing by employee of the severance accrual for officers and employees and to state separately for each individual any enhanced severance included. In response the Company provided a copy of the entry recording the costs with the names removed, stating that no "change-in-control" costs were included. Once again the Company has failed to provide adequate documentation to support its claim that none of these costs are for enhanced severance. Therefore these costs should likewise be denied recovery.

**C. Acceleration of Restricted Stock Plans**

**Q. WHAT ARE THE RESTRICTED STOCK PLANS THAT THE COMPANY IS ATTEMPTING TO RECOVER?**

**A.** The restricted stock plans include the PacifiCorp Stock Incentive Plan, in which all of the executives participated; and the PacifiCorp Long Term Incentive Plan, in which all executives other than Mr. McKennon participated. Upon completion of the merger, pursuant to the terms of the PacifiCorp Stock Incentive Plan and PacifiCorp Long Term Incentive Plan, and the agreements related thereto, any unvested restricted PacifiCorp Common Stock and unvested options to purchase PacifiCorp Common Stock held by the participants therein vested, except for the awards and options granted on February 9, 1999, to executives other than Mr. McKennon, which could vest within 24 months following a change in control if the recipient's employment is terminated under certain conditions.

**Q. ARE THESE COSTS ADDRESSED IN THE STIPULATION?**

**A.** Yes. The treatment of these costs was to be below the line. However, to the extent that a net benefit in costs going forward could be demonstrated, then such costs would be recoverable. It should be noted that this statement also applied to executive severance and supplemental retirement. Severance costs have been allowed in the past when they have resulted in a net benefit going forward. Executive stock plans have not been allowed in rates.

**Q. HAS THE COMPANY DEMONSTRATED A NET BENEFIT?**

**A.** No. In response to DPU Data Request No. 2.20, the Company described its rational for the inclusion of these costs as follows:

> "As a result of the merger, benefits associated with these programs vested immediately. The Company was required to recognize in 1999 the remaining expense related to these plans. The merger accelerated recognition of the costs but not the total cost. To mitigate the rate impact, the Company is seeking a 3-year amortization of these costs for rate setting."

**Q. HAS THE COMMISSION ALLOWED RECOVERY OF THESE STOCK PLANS?**

**A.** No. The Commission has historically disallowed recovery of these plans as they are based on financial goals and objectives.

The objective of the PacifiCorp Restricted Stock Program is to provide recognition and rewards over the long term to PacifiCorp officers who contribute to the accomplishment of a strong total return performance for PacifiCorp relative to peer companies, ensure the accomplishment of earnings per share goals, drive the organizations for which they are responsible to “best-in-class” levels of performance and achieve long term strategic goals and objectives. In 1999 these strategic goals and objectives included successful completion of the merger with ScottishPower or significant accomplishments towards the achievement of this merger as well as the completion of important steps towards the transformation of current business units into high performing and high return enterprises. (PacifiCorp 1999 Restricted Stock Program, PacifiCorp Compensation, February 9, 1999)

**Q. ARE YOU RECOMMENDING DISALLOWANCE OF THESE COSTS?**

**A.** Yes, per the testimony of DPU witness Mecham, the costs of incentive plans which are contingent on the achievement of financial goals and objectives, have been, and should continue to be disallowed recovery in rates. Mr. Mecham is the DPU’s witness on incentive compensation and any further questions regarding these plans and the ratemaking thereof should be directed to him.

### D. Acceleration of Non-Employee Director Stock

**Q. WHAT ARE THESE CASH PAYMENTS THAT WERE GIVEN IN LIEU OF NON-EMPLOYEE DIRECTOR STOCK?**

**A.** These are in fact payments to directors, a cost item specifically listed on Attachment 2 of the Stipulation, for which the Company agreed it would not argue for recover in any future rate case. They are described in the ScottishPower merger with PacifiCorp, Circular to Shareholders, as follows:

> "Non-employee directors of PacifiCorp have been granted restricted stock under the PacifiCorp Non-Employee Directors Stock Compensation Plan. Stock granted under this plan vests over the five years of the plan following the grant, or shorterperiod to retirement, and *unvested shares are forfeited if the recipient ceases to be a director. Because the PacifiCorp board of directors will become an executive only board, the Non-Employee Directors Stock Compensation Plan will not continue to be operated,* and promptly following the Merger Date, each non-executive director will receive a special payment in the amount of $50,000 in recognition of his or her years of service and contributions to the PacifiCorp board of directors."

There was in fact no accelerating of non-employee director stock. Shares which were not vested at the Merger Date were forfeited. What the Company is arguing for recovery of, in violation of the Stipulation, is the $50,000 payment made to each non-employee director, a cost item which it specifically agreed not to seek recovery of in any future rate case. Therefore we recommend this item be denied recovery.

## V. PACIFICORP TRANS

**Q. WHAT IS THE STATUS OF PACIFICORP TRANS?**

**A.** PacifiCorp Trans, per the Transition Plan, has ceased operations. All of the fixed winged aircraft have been sold and the helicopter is expected to be sold in September 2001.

**Q. WHAT ADJUSTMENT DID THE COMPANY MAKE TO RECOGNIZE THE CLOSING OF PACIFICORP TRANS?**

**A.** The Company removed the residual costs associated with the PacifiCorp Trans fixed wing aircraft to reflect what it believed would be the commercial cost of air transport on a going forward basis. It did not remove the residual associated with the helicopter since at the time of the filing it had not yet been determined whether or not to sell this asset.

**Q. HAVE YOU MADE FURTHER ADJUSTMENTS TO PACIFICORP TRANS?**

**A.** Yes. I have removed the residual associated with the helicopter from May 2002 forward as well as recognized the gain on the sale of the fixed wing aircraft above the line. Refer to Exhibit No. DPU 3.5.

### A. Helicopter Residual

**Q. WHY DID YOU REMOVE THE RESIDUAL ASSOCIATED WITH THE HELICOPTER?**

**A.** The helicopter has been parked since May 2, 2000. Since that time the Company has been using chartered helicopters to conduct line patrol activities. Obviously, a charter company's billing is designed to recover both the fixed and variable costs of operating its helicopter. To allow the residual costs of the Company's helicopter, which are in essence the fixed costs; while at the same time allowing recovery of charter costs, results in a doubling up of fixed costs from May 2000 forward. Therefore, I have removed the helicopter residual from May 2000 to September 2000, to normalize line patrol costs for the test period. This results in a $360,085 reduction to total company expenses and results in a $133,548 reduction to Utah jurisdictional expenses.

**B. Gain on Sale of Fixed Wing Aircraft**

**Q. WHERE DID PACIFICORP RECORD THE GAIN IT RECOGNIZED ON THE SALE OF ITS FIXED WINGED AIRCRAFT?**

**A.** This gain was recorded below the line.

**Q. WHERE HAS PACIFICORP TRADITIONALLY RECORDED GAINS OR LOSSES ON THE DISPOSITION OF AIRCRAFT.**

**A.** In the past these have been included as part of the residual costs which were allocated to users of the aircraft. Thus, they were above the line.

**Q. WHEN WERE THE FIXED WINGED AIRCRAFT SOLD?**

**A.** September 2000, which is in the test period.

**Q. WHY IS IT APPROPRIATE TO INCLUDE THE GAIN ON THE SALE OF THE**

**FIXED WING AIRCRAFT IN REGULATED OPERATIONS?**

**A.** PacifiCorp Trans has historically been included in electric operations in a manner similar to other corporate costs. But, rather than being accounted for on electric operations books and records and billed out to the other PacifiCorp entities, PacifiCorp Trans operations were recorded on a separate set of books and billed to the other PacifiCorp entities. Similar to corporate costs, all of PacifiCorp Trans' costs were billed out, none remained within PacifiCorp Trans. Electric operations was billed for a return on PacifiCorp Trans, operating costs and taxes in proportion to its use of the fixed wing aircraft. Thus, historically a proportion of a return on, operating expenses and taxes of PacifiCorp Trans have been included in electric operations. Since electric operations has been accountable for a portion of the return on, operating expenses and taxes associated with these fixed wing aircraft, it is also appropriate that it receive a portion of the gain thereon. Additionally, it should be recognized that the basis of the aircraft which were sold was reduced by the gain on the trade-in of PacifiCorp Trans' two previous fixed wing aircraft. Thus, a portion of the current gain is attributable to the gain on the trade in of the two previous aircraft.

These aircraft were sold as part of the Company's Transition Plan to demonstrate its commitment to cutting cost, not so much due to actual demonstrated costs savings, but rather because the aircraft had been perceived as a luxury by some. In response to DPU Request No. 3, submitted during our review of the Company's 1999 results of operations, the Company stated:

"While the cost consideration was not overly decisive there was a

> significant additional benefit that selling the fixed wing aircraft would be viewed internally and externally that the Company and its senior management were committed to reducing costs. Selling the aircraft would set an early transition precedent on cost cutting that would set a benchmark for the rest of the business."

The jury is still out as to whether or not actual cost savings will be realized. One round trip ticket from Portland, Oregon to Cheyenne, Wyoming can cost upwards to $1200. PacifiCorp's aircraft could carry up to nine persons at a fully embedded cost of approximately $4,000. The actual savings will be dependent on the cost, travel patterns and usage, and availability of alternative transportation. PacifiCorp previously conducted an analysis indicating its company owned aircraft provided a net benefit when taking into account the costs of owning, maintaining and operating the aircraft, as well as time, productivity and other associated costs of utilizing commercial air travel. This analysis was conducted by an outside source who was hired specifically to review the costs and benefits of PacifiCorp Tran's operations.

**Q. HOW DID YOU ASSIGN THE GAIN TO ELECTRIC OPERATIONS?**

**A.** The gain was assigned to electric operations using the three factor formula consistent with transition planning and monitoring costs. It is being amortized over the transition planning horizon of 5 years.

## VI. CORPORATE COSTS

**Q. WHAT COSTS ARE CURRENTLY BEING CHARGED OR ALLOCATED TO PACIFICORP FROM SCOTTISHPOWER?**

**A.** Currently PacifiCorp is being charged for the salaries and expenses of ScottishPower personnel on assignment at PacifiCorp. No corporate overheads are currently being allocated from ScottishPower to PacifiCorp as they are considered to be minimal. Since ScottishPower is currently not allocating costs to PacifiCorp, it has not filed a cost allocation methodology with the Commission as ordered in Docket No. 98-2035-04.

**Q. IS PACIFICORP CURRENTLY REMITTING MONIES TO SCOTTISHPOWER FOR THESE CHARGES?**

**A.** No. Currently these charges are being expensed and set up as a payable on PacifiCorp's books. They are shown as an offset to expense on ScottishPower books and a receivable from PacifiCorp. Application has been made to the Securities and Exchange Commission (SEC) to allow for the exchange of currency between PacifiCorp and ScottishPower, but to date, to the best of my knowledge, this has yet to be granted. In the meantime the salaries and expenses of ScottishPower personnel assigned to PacifiCorp that are being paid by ScottishPower will remain expenses on PacifiCorp's books for which payment has not been made.

**Q. WHEN DID PACIFICORP BEGIN RECORDING THE COSTS OF THE SCOTTISHPOWER PERSONNEL?**

**A.** In November 1999, ScottishPower directed PacifiCorp to record the salaries and expenses of certain ScottishPower personnel above the line, on the basis that they had been performing the roles of PacifiCorp employees. The November 1999 entry was a catch-up entry in that it recorded the salaries of certain ScottishPower personnel from the time it was deemed they were performing as PacifiCorp employees. All of these costs were incurred prior to the Merger Date. Some were incurred prior to the test period.

**Q. GIVEN THAT THE SCOTTISHPOWER EMPLOYEES ARE NOT PAID IN U.S. CURRENCY, HOW ARE THE AMOUNTS RECORDED ON PACIFICORP'S BOOKS DETERMINED?**

**A.** They are estimates based on an assumed conversion rate. This conversion rate has never changed since it was established. Prior to February 2000, even the individual's salary was an estimate.

**Q. HAVE THESE ESTIMATES EVER BEEN TRUED-UP?**

**A.** No. This has not been an issue, nor a priority, for the Company since its books and records are correct on a consolidated basis. However, from a regulatory stance it does pose problems and issues. PacifiCorp's rates are determined from PacifiCorp's books and records. It calls into question the accuracy of the charges which the Company is seeking to recover in rates. Charges from affiliates should be based on actual cost, not estimates. The use of estimates violates PacifiCorp's Transfer Pricing Policy. Services received from affiliates are to be priced at the lower of cost or market. The Stipulation required ScottishPower to comply with PacifiCorp's Transfer Pricing Policy, as currently in effect or hereafter amended with the approval of the Commission, in respect of transactions with PacifiCorp.

**Q. HAVE YOU MADE AN ADJUSTMENT TO SCOTTISHPOWER EMPLOYEE COSTS?**

**A.** Yes. I have removed those salary costs incurred prior to October 1999 since they are out of the test period. This reduces Utah jurisdictional expenses $57,579. Refer to Exhibit No. DPU 3.14.

**Q. HOW ARE PACIFICORP'S CORPORATE COSTS ALLOCATED TO ITS SUBSIDIARIES?**

**A.** PacifiCorp continues to use the three factor formula to allocate corporate overheads to its subsidiaries.

**Q. HAS PACIFICORP'S CORPORATE STRUCTURE CHANGED SINCE THE**

**MERGER?**

**A.** Yes. Several new corporate cost centers have been added including Internal Communications, Business Planning, Transition Implementation, Special Projects and the ScottishPower Team. The ScottishPower Team was established in November 1999 for purposes of accumulating transition planning costs. It was closed in October 2000. All other costs centers were established in August 2000. The corporate structure continues to evolve and has not yet been finalized. Once the corporate structure is determined consideration will be given to changing the current cost allocation methodology.

**Q. HAVE YOU MADE ANY ADJUSTMENTS TO PACIFICORP'S CORPORATE COSTS?**

**A.** Yes, although established in November 1999, the ScottishPower Team cost center was not allocated until January 2000. Additionally in July 2000, some cost elements were not included in the management fee that are normally included. I have reduced electric operating expenses for the portion of these costs which should have been allocated to other entities through the management fee. This reduced Utah jurisdictional expenses $121,248. Refer to Exhibit No. DPU 3.15.

## VII. SAP

**Q. WHAT ASPECTS OF SAP DID YOU EXAMINE?**

**A.** I reviewed the allocation of SAP as well as I/T costs between regulated and non-regulated operations.

**Q. HOW ARE SAP AND I/T COSTS ASSIGNED TO NON-REGULATED OPERATIONS?**

**A.** During the test period two allocation methods were used. From October 1999 to March 2000, costs were allocated based on a count of personal computers. Beginning in April 2000, the allocation was refined to split costs based on four factors. These factors are personal computer count, network ID count, employee count and direct assignment.

Personal computer count is used to allocate costs for desktop support, server support and help cost centers. This includes depreciation and hardware/software maintenance for these functions.

Network ID count (personnel with access to PacifiCorp's computer systems) is used to allocate costs for network architecture, I/T engineering, research and consulting, data network design and implementation, bill payments, circuit order processing, cellular phone and pager orders and payments, and telecommunication services contracts. This includes depreciation and hardware/software maintenance for these functions.

Employee count is used to allocate costs for voice communication services, and corporate/SAP software. This includes depreciation and hardware/software maintenance for these functions.

Finally, mainframe processing costs are directly assigned to departments based on system usage of the mainframe.

**Q. PLEASE EXPLAIN YOUR I/T NORMALIZING ADJUSTMENT?**

**A.** This adjustment adjusts the assignment of costs allocated between regulated and non-regulated operations for the month of October 1999 to March 2000, to reflect the allocation methodology used since April 2000. The weighted average percent of costs assigned to non-regulated operations for the period April 2000 to September 2000, was used to reallocate costs to non-regulated operations for the months of October 1999 to March 2000. This resulted in a reduction in Utah jurisdictional expenses of $73,664. Refer to Exhibit No. DPU 3.8.

Additionally, I used the same weighted average percent to allocate a portion of the SAP rate base to non-regulated operations. A portion of the SAP depreciation costs was allocation to non-regulated operations, but the entire rate base remained in regulated operations. As SAP is being used to support both regulated and non-regulated operations, the non-regulated side should be responsible for providing a return on as well as a return of SAP costs. This resulted in a reduction to Utah jurisdictional rate base of $768,395. Refer to Exhibit No. DPU 3.8.

**Q. FROM A REGULATORY PERSPECTIVE HAVE YOU FOUND SAP TO BE AN IMPROVEMENT OVER THE PREVIOUS SYSTEM?**

**A.** SAP has been the source of numerous audit difficulties. Not so much because of the system itself, but because of its apparent inability to convert the “natural” accounts on which it is based to “FERC” accounts on a consistent basis. Since costs were not assigned to FERC accounts on a consistent basis, any comparison of monthly charges or year to year charges by account was rendered useless. Significant changes in account balances from month to month or year to year may be due to inconsistent recording of expenditures, rather than an actual change in costs. Worst yet, some costs were lumped together and recorded as “FERC standard cost adjustment”, thereby completely losing their identity in the process. Additionally, we have lost the ability at the FERC account level to easily aggregate a group of expenditures, such as payroll costs, by account. Previously this was accomplished by a “focus” run. Now it is necessary to manually go through each and every account. This made our audit more time consuming and difficult.

SAP is based on “natural” accounts, that is, all like expenditures are recorded to a single account. For example, all regular-time payroll is recorded to a single account, all over-time is charged to a single account, all bonuses are recorded to a single account, etc. SAP allows the user to catagorize, track and control costs at multitude of levels. However, it is not designed for, nor can it do, FERC accounting. Thus, it is necessary to write a separate program to convert the SAP accounts to FERC accounts. This program, referred to as the FERC module, translates the SAP accounts into FERC accounts based on identifiers used in the SAP entry such as account number, cost center, work order, etc. These identifiers are manual inputs to the SAP system. The FERC module is not a SAP product, but was acquired from another utility. It did not “fit” PacifiCorp and therefore some reprogramming has been necessary. PacifiCorp admits the FERC module has some "bugs", but getting SAP up and running and training personnel have taken priority. It was not until January 2001, that the FERC module received their full attention. Working out problems with the FERC module as well as getting personnel used to SAP inputs has resulted in numerous inconsistencies in the FERC accounts.

**Q. COULD YOU PLEASE PROVIDE SOME EXAMPLES OF THE INCONSISTENCIES THAT WERE ENCOUNTERED DURING THE AUDIT?**

**A.** The Company made an adjustment to Account 930, to remove the residual for the fixed wing aircraft. We were unable to trace the total adjustment to Account 930, because the residual had been recorded in other accounts as well.

Our examination of Account 923 revealed many expenditures relating to PowerCor. In the previous accounting system these would have been recorded in a work order and never hit an expense account. The Company claimed that these expenses had been reversed and billed to PowerCor, but we could not verify this claim and requested supporting documentation. Upon further examination we were able to determine that some of these expenses had been in fact reversed, but credited to various accounts other than 923, some still remained on the books.

PacifiCorp still had to physically bill PowerCor because the companies' respective SAP systems were not compatible. This will not be an issue in the future since PowerCor has been sold.

**Q. HAVE YOU DISCUSSED THE PROBLEMS YOU ENCOUNTERED WITH THE FERC MODULE WITH THE COMPANY?**

**A.** Yes. The Company is aware of the problems and the audit difficulties we encountered. As I mentioned previously, the Company has now turned its attention to the FERC module. We have discussed these issues with the Company and expect them to be resolved within the year.

As discussed by DPU witness Burrup, overall we found SAP to be a cost effective investment. It improves the Company's ability to track and control costs, to control inventories and so forth. The problems with the FERC module are a matter of implementation and should be corrected. We expect the Company to make the necessary modifications to the FERC module.

**Q. DOES THE PACIFICORP'S SAP SYSTEM COMMUNICATE WITH SCOTTISHPOWER'S SYSTEM?**

**A.** No it does not. A separate computer is maintained at PacifiCorp to enter accounting data for consolidation purposes.

**Q. DOES SAP HAVE THE ABILITY TO BE USED FOR INTERNATIONAL ACCOUNTING?**

**A.** Yes, additional modules can be added to the SAP package to allow for global reporting. PacifiCorp did not acquire these modules.

## VIII. MISCELLANEOUS & GENERAL EXPENSES

**Q. WHAT ADJUSTMENTS DID YOU MAKE TO MISCELLANEOUS & GENERAL EXPENSES?**

**A.** I made adjustments to remove out of period costs, economic development expenditures, certain expenditures that should have been assigned situs to other jurisdictions, dues, donations and lobbying expenditures. These adjustments follow.

### A. Out of Period Costs

**Q. WHAT OUT OF PERIOD COSTS DID YOU REMOVE?**

**A.** I removed out of period costs associated with the amortization of the Cholla contract review and NSA & Smartnet maintenance.

**Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE CHOLLA CONTRACT REVIEW COST AMORTIZATION.**

**A.** PacifiCorp is amortizing the legal and consulting costs associated with renegotiating the P&M coal contract over a four year period, commencing January 1, 1999 and ending

December 31, 2002, at $16,548 per month. However, the Company failed to record the amortization in the months of January to August 1999, and therefore recorded the entire amortization for 1999 in the months of October, November and December. This adjustment removes the catch up amortization recorded in October through December so that the test year reflects one year of amortization. It reduces Utah jurisdictional expenses $55,235. Refer to Exhibit No. DPU 3.11.

**Q. PLEASE EXPLAIN YOU ADJUSTMENT TO NSA & SMARTNET MAINTENANCE.**

**A.** The maintenance contract for NSA & Smartnet, with a term of eighteen months, was entirely expensed in the test year. This adjustment removes six months of the cost so that the test year reflects one year of cost. It reduces Utah jurisdictional expenses $98,000. Refer to Exhibit No. DPU 3.12.

**B. Economic Development Costs**

**Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO ECONOMIC DEVELOPMENT COSTS.**

**A.** I have removed the challenge grants given to various communities. These grants, which ranged from $500 to $35,000, were established to leverage private and public resources to stabilize and enhance local economies. Dues and donations given to support economic development organizations and activities have not been allowed in rates. This adjustment reduces Utah jurisdictional expenses $61,919. Refer to Exhibit No. DPU 3.9.

**C. Expenditures Situs to Other Jurisdictions**

**Q. PLEASE DESCRIBE YOUR ADJUSTMENT TO REMOVE EXPENDITURES SITUS TO OTHER JURISDICTIONS.**

**A.** This adjustment removes the Utah portion of payments to the Northwest Energy Efficiency Alliance and Oregon Housing and Community Outreach that were allocated system wide. The Northwest Energy Efficiency Alliance was established in October 1996 to make energy efficient products and services available and affordable to customers in Washington, Oregon, Idaho and Montana. These are payments for demand-side activities and therefore should be assigned situs. The Oregon Housing and Community Outreach provides assistance to customers in Oregon and therefore should be assigned situs to Oregon. This adjustment reduces Utah jurisdictional expenses $322,149. Refer to Exhibit No. DPU 3.10.

**D. Edison Electric Institute (EEI) Dues**

**Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO EEI DUES.**

**A.** This adjustment removes the lobbying portion of the EEI dues. Lobbying expenditures have not been allowed recovery whether they are directly funded or indirectly funded through an affiliate or outside party. The lobbying portion was determined from the EEI billing and represents that portion of the dues that are not deductible as ordinary business expenses. This adjustment reduces Utah jurisdictional expenses $32,915. Refer to Exhibit No. DPU 3.13.

### E. Other Miscellaneous & General Expense

**Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OTHER MISCELLANEOUS & GENERAL EXPENSE.**

**A.** This adjustment removes other miscellaneous and general expenses that are not appropriately included in rates. These expenditures are listed on Exhibit No. DPU 3.6. The first five items listed on this exhibit were included in the Company's adjustment to miscellaneous and general expense, Tab 4.17 of the Results of Operations. Additional items include dues to a lobbying organization, donations to various not for profit charitable organizations, country club dues, a leased car for an executive's spouse and an executive's paid membership for an art museum. All of these items have previously been denied recovery in rates. This adjustment results in an additional $59,000 reduction to Utah jurisdictional expenses.

## IX. CONCLUSION

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A.** Yes.

RESUME
MARY H. CLEVELAND

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EDUCATION:

BBA-Accounting: University of Missouri-Kansas City, 1971
MBA-Accounting: University of Missouri-Kansas City, 1974

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HONORS:

Beta Gamma Sigma

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CPA STATUS:

Licensed in Kansas

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EMPLOYMENT:

Mar. 1998 to present: Utah Division of Public Utilities
160 East 300 South, Suite 400
Salt Lake City, UT 84114

Position: Utility Regulatory Analyst IV

Description: Primarily responsibilities include reviewing utilities' affiliated transactions and accounting for regulated and non-regulated activities. Most recently involved in the evaluation of the ScottishPower / PacifiCorp merger. Also review gas procurement activities, participate in rate case investigations, prepare written testimony and testify before the Utah Public Service Commission.

Aug. 1991 to Mar. 1998: Utah Committee of Consumer Services
160 East 300 South, Suite 408
Salt Lake City, UT 84114

Position: Utility Regulatory Analyst IV

Description: Represented residential, samll commercial and agricultural customers in utility matters. Monitored, assessed and reported on current issues facing the utility industry. Planned and conducted audits of gas and electric utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Assignments included participation in the IndeGO (proposed independent system operator for the Northwest region) Pricing Work Group and Steering Committee, evaluating PacifiCorp's integrated resource planning process, participating in



PacifiCorp's Demand-Side Management Advisory Group, and assisting in the evaluation of PacifiCorp's stranded cost exposure. Also evaluated gas procurement activities of Questar Gas.

Oct. 1998 - Aug. 1991: Utah Division of Public Utilities
160 East 300 South
Salt Lake City, UT 84114

Position: Utility Rate Engineer

Description: Participated in audits of utilities in conjunction with rate applications, prepared written testimony and testified before the Utah Public Service Commission. Evaluated and prepared written recommendations on utility tariff and special contract filings. Assisted in the evaluation of the PacifiCorp / Utah Power & Light merger.

Apr. 1985 - Oct. 1998: LMSL, Inc.
10955 Lowell
Overland Park, KS 66210

Position: Senior Regulatory Consultant

Description: Participated in rate case investigations and other special studies on behalf of state utility commissions, prepared written testimony and testified in various proceedings.

Aug. 1983 - Apr. 1985: Troupe Kehoe Whiteaker and Kent
800 Penn Tower Building
3100 Broadway
Kansas City, MO 64111

Position: Senior Regulatory Consultant

Description: Local CPA firm specializing in regulated industries. Work included rate case investigations, preparation of written testimony and testifying before various state regulatory commissions. Also participated in year-end financial audits of small independent telephone companies and rural electric companies and assisted in tax return preparation.

Mar. 1981 - Aug. 1983: Kansas Corporation Commission
Utilities Division
1500 S.W. Arrowhead Road
Topeka, KS 66604-4027

Position: Senior Utility Regulatory Auditor

Description: Planned and conducted audits of utilities in conjunction with rate case applications, prepared written testimony and served as an expert witness in hearings before the Commission.



Aug. 1977 - Mar. 1981: University of Kansas Medical Center
Institutional Research & Planning / Budget Office
3900 Rainbow Boulevard
Kansas City, KS

Position: Analyst / Accountant

Description: Conducted special operational and long-range planning studies. Work involved programming with SPSS, SAS and Mark IV; program documentation and report writing.

Jun. 1973 - Aug. 1977: Midwest Research Institute
425 Volker
Kansas City, MO 64110

Position: Operations Analyst

Description: Performed operational audits and developed management information systems for a variety of clients. Also conducted workshops on long-range planning. Work involved programming with FORTRAN and SPSS, program documentation and report writing.

Apr. 1969 - Jun 1973: University of Missouri - Kansas City
Library Accounting / Acquisitions
5100 Rockhill Road
Kansas City, MO 64110

Position: Accountant

Description: General accounting, budget preparation and fiscal reporting.

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MEMBERSHIPS:

American Institute of Certified Public Accountants.

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