Witness CCS - 3

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	**:**	**Docket No. 01-035-01**
PacifiCorp for Approval of its	**:**	**PRE-FILED DIRECT TESTIMONY OF**
Proposed Electric Rate Schedules	**:**	**DONNA DERONNE**
and Electric Service Regulations	**:**	**FOR THE COMMITTEE OF**
	:	**CONSUMER SERVICES**

June 4, 2001

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INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. I am Donna DeRonne, a Certified Public Accountant licensed in the State of Michigan. I am a regulatory consultant in the firm Larkin & Associates, PLLC, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorney generals, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings, including numerous electric, gas, telephone and water and sewer utilities.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates was retained by the Committee of Consumer Services (CCS or Committee) to analyze PacifiCorp's (Company) request for an increase in general rates utilizing the test year ended September 30, 2000, and to make recommendations to the Utah Public Service Commission (Commission) based on that analysis.

Hugh Larkin, Jr., also of Larkin & Associates, PLLC, presents the Committee's overall recommendations and recommended revenue requirement. I propose and discuss specific adjustments to the test year. The impact of my recommended adjustments is reflected in the overall revenue requirement calculation presented by Mr. Larkin. Each of the adjustments I am sponsoring is discussed below.

RECOMMENDED RATE BASE ADJUSTMENTS

Bridger Coal Company Rate Base

Q. HAS PACIFICORP MADE AN ADJUSTMENT TO REFLECT ITS INVESTMENT IN THE BRIDGER COAL COMPANY?

A. Yes. This is consistent with adjustments made by PacifiCorp in prior cases. PacifiCorp's subsidiary, Pacific Minerals, Inc., is a part owner of Bridger Coal Company. Since the investment is on the subsidiary's books, the Company made Adjustment 8.4 to increase test-year rate base to reflect the investment in the Bridger Coal Company based on its portion of Bridger's average rate base.

Q. SHOULD ANY REVISIONS BE MADE TO THE COMPANY'S ADJUSTMENT?

A. Yes. Included in the Company's adjustment is an average accounts receivable balance for Bridger Coal Company of $6,396,100. The average balance was determined based on a September 1999 balance of $5.27 million and a September 2000 balance of $6.6 million. The accounts receivable balance is due entirely from PacifiCorp. PacifiCorp should not be allowed to earn a return on amounts it owes to another Company. In the last rate case, Docket No. 99-035-10, I recommended that the accounts receivable balance be removed. In a Joint Narrative exhibit following the hearings in the last rate case, the Company claimed that the Bridger Coal Company accounts payable was included in the 1991 lead-lag study used to calculate cash working capital. The Commission agreed with the Committee's position that the Bridger Coal Company accounts receivable balance should be removed. The decision indicated that the Company had not specifically shown how the balance was treated in the 1991 study.

Q. SINCE THE COMMISSION DISALLOWED THE INCLUSION OF THE BRIDGER ACCOUNTS RECEIVABLE FROM PACIFICORP IN RATE BASE IN THE LAST CASE, WHY DID THE COMPANY INCLUDE IT IN RATE BASE IN THE CURRENT CASE?

A. On page 23 of his Supplemental Direct Testimony, PacifiCorp witness D. Douglas Larson provides the following explanation:

> In fact, the accounts payable balance for Bridger Coal Company is included in the updated lead-lag study (December 1998) used to calculate cash working capital in this case. The Bridger Coal Company receivable balance must, therefore, be included in rate base to offset the lower cash working capital that results from including Bridger's payable balance. For this reason the Company has included the Bridger Coal Company accounts receivable balance in the test period rate base.

Q. ARE YOU STILL RECOMMENDING THAT THE BRIDGER COAL COMPANY ACCOUNTS RECEIVABLE BALANCE FROM PACIFICORP BE REMOVED FROM RATE BASE?

A. Yes, I am. First, Committee witness Helmuth Schultz is recommending that the 1998 lead-lag study not be used in this case. He has recommended that cash working capital be calculated based on the previous lead-lag study due to numerous problems with the 1998 study. Second, even if the new lead-lag study is used, the Company has not provided clear evidence demonstrating that the impact on cash working capital from including the payables to Bridger Coal Company is equivalent to the $6,396,100 included in rate base. In the last rate case, the Commission did not accept the Company's mere statement that it was included without clear evidence supporting the contention.

Q. HAVE YOU BEEN ABLE TO DETERMINE THE IMPACT IN THE 1998 LEAD-LAG STUDY FROM THE INCLUSION OF THE BRIDGER COAL COMPANY PAYABLES IN CALCULATING THE EXPENSE LAG?

A. No. In fact, we have had trouble in this case receiving complete information regarding the new lead-lag study. CCS On-site Data Request 12.26 specifically asked the Company to provide a copy of the new lead-lag study, including <u>all</u> associated workpapers. The Company provided a binder with the lead-lag study. Upon reviewing the study, it was determined that a lot of the specific calculations provided pertained to the Idaho jurisdiction. The study provided the summaries of the results of the lead-lag study for each of its retail jurisdictions. In response to CCS 28.2, received May 23, 2001, the Company indicated that the detailed workpapers for the Utah calculations of the general business revenue billing and collection lag days "fill half a dozen binders and are available for inspection at the Company's Regulation Department offices in Salt Lake City." These workpapers were not provided during the previous on-site visit.

Q. WHAT ADJUSTMENT DO YOU RECOMMEND?

A. As shown on Exhibit 3.1, rate base should be reduced by $2,359,713 on a Utah jurisdictional basis to remove the accounts receivable due from PacifiCorp to Bridger.

<u>Environmental Settlements</u>

Q. CONSISTENT WITH PREVIOUS RATE CASES, DID THE COMPANY INCLUDE AN OFFSET TO RATE BASE FOR INSURANCE SETTLEMENTS RECEIVED FOR ENVIRONMENTAL CLEAN-UP PROJECTS THAT REMAIN UNEXPENDED?

A. Yes. In adjustment 8.1, the Company reduced rate base by $10,188,849 on a Utah basis ($27,479,918 total Company) for the average remaining insurance proceeds received for environmental clean-up projects. In 1996, PacifiCorp received an insurance settlement of $33 million for environmental clean-up projects which it transferred to PacifiCorp Environmental Remediation Company (PERCO), a subsidiary. Additional insurance proceeds have been received since that date. The rate base amount is reduced or amortized as PERCO expends dollars on clean-up costs. The adjustment to reduce rate base by the unused funds has been included in the last two rate case proceedings.

Q. SHOULD ANY ADJUSTMENTS BE MADE TO THE AMOUNT OF RATE-BASE OFFSET THE COMPANY REFLECTED IN ITS FILING?

A. Yes. According to the response to CCS 13.8, the Company recorded an additional insurance settlement payment of $10 million in February 1999. The response indicated that the $10 million additional payment is reflected on Attachment CCS 13.8. Attachment CCS 13.8 provides an itemization of the monthly balances of the insurance proceeds, including the reductions for actual environmental expenditures. The amounts found on the attachment tie to the test-year beginning and ending balances used to calculate the test-year average offset to rate base in Adjustment 8.1 of the Company's filing. However, upon review of the attachment, there is not an increase reflected for the additional $10 million of proceeds received in February 1999. Consequently, the Company's assertion in the response that the additional $10 million of proceeds received is included in the attachment does not appear to be accurate. I reviewed every month provided in the attachment from January 1999 through September 2000 and the additional proceeds do not appear anywhere in the attachment. Since the amounts from the attachment tie into the adjustment in the Company's filing, it appears the additional $10 million of insurance proceeds are not included as an offset to rate base.

Q. HAVE YOU PREPARED AN EXHIBIT CONTAINING AN ADJUSTMENT TO REFLECT THE ADDITIONAL INSURANCE PROCEEDS AS AN OFFSET TO RATE BASE?

A. Yes. CCS Exhibit 3.15 presents the offset to rate base for the additional $10 million of insurance proceeds received during February 1999. Until these proceeds are paid out to fund actual environmental clean-up projects, they are a source of capital that should be used to offset rate base. As shown on the exhibit, rate base should be reduced by $3,707,740 on a Utah basis.

RECOMMENDED OPERATING INCOME ADJUSTMENTS

Revenue Normalization Correction

Q. WHAT IS THE PURPOSE OF THE ADJUSTMENT ON CCS EXHIBIT 3.2?

A. PacifiCorp's adjustment to normalize revenues is contained on Page 3.3 of its filing. The adjustment to Industrial Revenues, which increases industrial revenues by $1,963,000, is identified as being Utah Situs (i.e., 100% Utah). However, when the adjustment was transferred to the final column in the schedule, containing the Utah Allocation amount, only $80,000 of the $1.963 million adjustment was reflected. In response to CCS 5.35, PacifiCorp agreed that the full amount ($1,963,000) should have been reflected in the Utah column of the schedule. CCS Exhibit 3.1 corrects this error, increasing Utah industrial revenues by $1,883,000 ($1,963,000 - $80,000).

Distribution Expense Correction

Q. HOW DID THE LEVEL OF TEST-YEAR DISTRIBUTION EXPENSE COMPARE TO THE LEVELS RECORDED IN PRIOR YEARS?

A. Several of the distribution operation and maintenance expense accounts increased significantly on a Utah allocated basis. For example, Utah adjusted overhead line expense in account 583 increased from $3,870,436 for the year ended December 31, 1998, to $13,859,660 for the year ended December 31, 1999, to $18,440,452 for the test year. The Utah adjusted maintenance of overhead lines expense in account 593 increased from $8,924,371 for the year ended December 31, 1998, to $13,400,121 for the year ended December 31, 1999 to $15,503,808 for the test year. The Utah adjusted distribution operation supervision and engineering expense in account 580 decreased from $1,708,087 for the year ended December 31, 1998, to $856,406 for the year ended December 31, 1999, and increased to $20,146,855 for the test year.

Q. WHAT CAUSED THESE HUGE INCREASES IN DISTRIBUTION EXPENSE?

A. The Company was asked to explain, in detail, what factors caused the significant increases in these accounts. In response to CCS 5.29 and CCS 5.30, the Company provided the following explanation:

> Because of the implementation of a new accounting system in 1999, specific Distribution O&M accounts are not comparable. However, in reviewing total Distribution O&M expense the Company has identified location errors in certain cost centers that result in test period Utah Distribution O&M expense being overstated by approximately $7.7 million. This error is described in greater detail in Attachment CCS 5.31.

Q. WHAT WAS PROVIDED IN ATTACHMENT CCS 5.31?

A. The attachment indicated that certain cost centers were mapping to Utah Situs that should have mapped to system distribution or to Wyoming. Correction of the mapping errors results in a $7,709,765 reduction to distribution O&M expense on a Utah allocated basis. Unfortunately, the Company did not provide a breakdown of the adjustment by expense account. Consequently, on CCS Exhibit No. 3.3, I provide the total adjustment amount, but not the amount by specific Distribution O&M expense account. I recommend that the Company provide the breakdown of the correction by expense account in its rebuttal testimony so that the amounts can be allocated appropriately in the final spreadsheet model used in this case.

Q. DO ANY OTHER ACCOUNTS OR AREAS IN THE COMPANY'S FILING HAVE SIMILAR ERRORS CAUSED BY USING INCORRECT LOCATION CODES?

A. I do not know. We have not been able to specifically identify other similar errors that would negatively impact the amount of test-year expense allocated to the Utah jurisdiction. However, there is a concern that there may be similar errors caused by the change in the accounting system that the Committee's consultants were unable to identify. Committee witness Hugh Larkin, Jr., identifies concerns with the Company's transition to the SAP system in further detail in his direct testimony.

Accounting Write Offs

Q. THE FILING CONTAINS THREE SEPARATE ADJUSTMENTS, EACH WITH MULTIPLE SUBPARTS, ADDRESSING WRITE-OFFS THAT OCCURRED DURING THE TEST YEAR. ARE THERE ANY CONCERNS WITH THE LEVEL OF WRITE OFFS THAT OCCURRED DURING THE TEST YEAR?

A. Yes. The test year ended September 30, 2000, contains a much higher level of accounting write offs than those recorded by the Company in prior years. In the adjustments contained in Pages 8.14 through 8.16 of the Company's filing, the Company removes from the test year the impact of 13 separate write-offs made during the test year. Some of these write-offs, such as the write-offs for computer software and abandoned projects, actually consist of numerous separate items that are being written off. Of the 13 separate write-offs (excluding the subparts) contained in the schedules, the Company is seeking an amortization of five of them for recovery from ratepayers.

Q. WERE THERE ANY ADDITIONAL WRITE-OFFS MADE DURING THE TEST YEAR BEYOND THOSE SPECIFICALLY IDENTIFIED BY THE COMPANY IN ITS FILING?

A. Yes. Larkin & Associates was able to identify several additional write-offs made by the Company during the test year beyond those specifically adjusted for in the filing. Since the Company did not make any adjustments for the additional write-offs, the full impact remains in the test year. The additional write-offs we were able to identify are presented on CCS Exhibit 3.4. They include a $200,000 write-off of Cholla Unit Turbine #4 upgrade, a $2.46 million write-off of obsolete inventory and a $254,445 write-off for obsolete inventory at Energy West Mining. It appears, based on information provided by the Company to date, there are several additional write-offs that may have occurred during the test year. As of the writing of this testimony, the Company has not responded to several Committee data requests on this issue.

Q. WHAT FACTORS CAUSED THE COMPANY TO RECORD SUCH A HIGH LEVEL OF WRITE OFFS ON ITS BOOKS DURING THE TEST YEAR?

A. The main driver of the significant level of write offs appears to be the merger with ScottishPower, along with the Company's conversion to SAP. Several Company documents contain the term "fair value exercise." The term "fair value exercise" involves the cleaning-up of PacifiCorp's books as part of the merger. Data request CCS 13.24 asked the Company to provide copies of all correspondence to and from its external auditors regarding any of the write-offs included in the filing. In its response, the Company provided a copy of an e-mail from Robert Dalley, the previous Comptroller and Chief Accounting Officer of PacifiCorp, to PriceWaterhouse Coopers, the current external auditors of ScottishPower and PacifiCorp. The subject of the memo is "FMV Clean up list." The memo refers to an attachment as the "...latest version of the clean up." The memo also states that one of the items "...may make sense to move into the fair value exercise but I would like to stay flexible." The spreadsheet attached to the memo lists numerous potential adjustments for Fair Market Value. The listing includes a column titled: "Triggering Event (Why these items need to be cleaned up?)". It also gives a description of the proposed write-offs/adjustments, the amount of the potential write-offs, the probability of the adjustments and the date of the associated trigger events. I assume the trigger date means the date that an event occurred that would cause the item/cost to be written off on the books.

Several of the items on the list were subsequently written off on PacifiCorp's books during the test year and are included in the adjustments contained in the filing. However, several of the items on the list do not appear in the Company's adjustments. Consequently, we are unsure, at this point, if some of the write offs were not made, or if they were made and remain 100% in the adjusted test year.

Q. IS THERE ANY ADDITIONAL INFORMATION PROVIDED BY THE COMPANY

THAT LEAD YOU TO BELIEVE THAT THE WRITE OFFS WERE ASSOCIATED WITH CLEANING UP THE BOOKS AS PART OF THE MERGER?

A. Yes. Data request CCS 13.25 asked the Company to provide copies of any studies, evaluations and/or analyses used in determining whether or not to make the write offs included in the adjustments in the filing. It also asked the Company if any of the write-offs were being made during the test year as a result of the merger. In response, the Company provided an internal document dated January 13, 2000. from Robert Dalley with the subject title "Proposed December 1999 Quarter-end Adjustments." The first paragraph of the document states:

> Described below are recommended December quarter-end one-time adjustments totaling $100.6 Million. The adjustments have been separated between those that would be recorded prior to the merger closure ($42.6 Million) and one that would recorded be (sic) subsequent to merger closure ($58 million). The future upside is an increase in PacifiCorp Operating Profit by $14, $26, $12, $3, and $3 million in calendar years 2000, 2001, 2002, 2003, and 2004, respectively.

The $58 million adjustment that the document indicated would be recorded after merger closure pertains to the merger credits/revenue reductions that were part of the merger agreements in the various states. The Company reversed the Utah portion of that adjustment, totaling $24 million, in its filing.

Q. DID YOU ASK A DATA REQUEST TO OBTAIN THE COMPANY'S DEFINITION OF THE "FAIR VALUE EXERCISE" AND "FAIR MARKET VALUE CLEAN UP"?

A. Yes. CCS 29.14 asked the Company to provide a detailed description and explanation of what is meant by the terms. The response was as follows:

> When a company acquires another company in a transaction accounted for as a purchase, the combined entity is required by GAAP to report the assets and liabilities of the purchased company at their fair market value on the date of acquisition. The fair value exercise was undertaken to determine the fair value of PacifiCorp assets and liabilities for the books and records of ScottishPower's consolidated financial statements. "Fair value exercise" and "fair market value clean up" relate to the same

process.

The response also indicated that “With the change in management and ownership, the perception of fair value of assets and liabilities changed.” The response further demonstrates that several of the write-offs were made to clean-up PacifiCorp’s books as part of the merger.

Q. WHAT ABOUT THE OTHER CATEGORY OF WRITE OFFS?

A. The remaining adjustments referenced in Mr. Dalley’s memo that would be recorded prior to the merger closure fall under the heading: “Adjustments that would impact PacifiCorp Trial Balance at Final Merger Closing.” This section of the internal document contained the following subheadings: Write-off Abandoned Assets Under Construction, Increased Bad Debt Allowance to write-off uncollectible accounts older than 90 days, Establish a Liability for MagCorp due in 2000, and Increase Property Insurance Reserve. Of these four areas, the abandoned assets under construction and the MagCorp liability are addressed in the Company’s adjustments in its filing. The remaining two items are not addressed in the adjustments in the filing. There are currently data requests outstanding to determine whether or not the remaining two items were written off during the test year and the costs included in the adjusted test year for the items. Consequently, I reserve the right to file supplemental testimony on the issues contained in the document.

The discussions under each of the items considers the impact on future earnings from writing off the items prior to the merger. For example, under the abandoned assets under construction issue, it is noted that the adjustments contains a “remote upside opportunity in future years” and it “eliminate probably future earnings exposure and possible rate case disallowance.” Under the bad debt write-off discussion, it is indicated that as a result of the potential write off “...bad debt expense is estimated to be $4-5 million lower in the long term as this matches operations experience." Under the MagCorp liability discussion, the Company indicates that the adjustment "results in a $3.8 million improvement in year 2000 operating results..." Under the discussion of the write-off/charge to increase the property insurance reserve, it is indicated that with the reserve, "the potential of a negative earnings impact in the year 2000/2001 is mitigated."

The focus of the write offs, based on a review of the memo, appears to be to increase future earnings after the merger by taking write offs on PacifiCorp's books prior to the merger completion. These write offs that are contemplated in the memos provided in response to CCS 13.24 and 13.25 fall within the test year in this case. In other words, the historical test year was negatively impacted to allow for higher post-merger earnings levels. While the Company has reversed several of the write offs in its filing, thereby removing the impact from the test year, it has not reversed all of them. It is also proposing to amortize several of the write offs that occurred during the test year for recovery from ratepayers. Furthermore, as previously indicated, it appears that there may be additional write-offs included in the test year beyond those that we have been able to verify to date. We plan to file supplemental testimony, as needed, upon receipt of our outstanding data requests and after adequate time for review and evaluation of those responses.

Q. YOU PREVIOUSLY MENTIONED THAT SOME OF THE WRITE-OFFS APPEAR TO HAVE BEEN DRIVEN BY THE COMPANY'S CONVERSION TO THE SAP ACCOUNTING SYSTEM. COULD YOU PLEASE ADDRESS THAT FURTHER?

A. Yes. It was part of the conversion of the accounting records to SAP that apparently caused the Company to evaluate a large balance on its books associated with projects that were never placed into service. The Company was unable to convert the costs to units of property and place them into service when they converted to SAP. I address these projects and the associated write-off later in this testimony.

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS ASSOCIATED WITH THE WRITE-OFFS MADE BY THE COMPANY DURING THE TEST YEAR?

A. Yes. I will specifically address several of the write-offs, including those addressed by the Company in its filing and some that were not removed in the filing, in subsequent sections of this testimony. Since there are still several discovery requests outstanding on the issues of test-year write-offs, I intend to file supplemental testimony on the test-year write-offs as necessary upon receipt of, and analysis of, the responses.

<u>Assets Under Construction Write Off</u>

Q. YOU PREVIOUSLY MENTIONED A WRITE-OFF MADE BY THE COMPANY FOR ASSETS UNDER CONSTRUCTION. COULD YOU PLEASE PROVIDE A MORE DETAILED DESCRIPTION OF THAT ADJUSTMENT?

A. During the test year, the Company wrote off $19.8 million to set up a Construction Work in Progress (CWIP) reserve for work orders that were opened for construction of projects that could not specifically be identified. The adjustment debited expense and credited (reduced) CWIP. The actual amount of the outstanding work orders was $26.4 million, and the Company estimated that 75% of those may not be able to be identified and would ultimately have to be charged to expense. The Company's filing and its responses to data requests contain some conflicting information on what the write off was actually for. Page 8.14.5 of the Company's filing states that the write off was for "work orders opened for construction of projects which were subsequently canceled or abandoned." In response to CCS 13.17, the Company indicated that the description in the filing was wrong, and that the write off pertains to "corporate conversion work orders." The January 13, 2000, internal memo from Robert Dalley, previously discussed, addresses the write off of the "abandoned assets under construction" as follows:

> At the time of conversion to SAP certain work orders were unable to be converted to units of property and concurrently placed into service. As a follow-on, the Controller Organization analyzed these projects as part of the on-going Trial Balance reviews. Of the 5167 work orders applicable, $21.7 million apply to years 1990 through 1992. Other work orders reach into 1983. All business units have outstanding projects represented but the preponderance relate to the T&D organizations. These work orders are NOT included in the asset base for rate recovery. No depreciation expense has been incurred and capitalized interest ceased in early 1999. Finally, D&T noted in the 1998 Management Letter that these work orders had not been closed.

Based on the information provided, it appears that the $26.4 million pertained to old work orders that were never booked to plant in service and for which the majority could not even be identified with specific projects. As indicated in the above quote, the majority of the items date back to 1990 through 1992 and some date as far back as 1983.

Q. WERE ANY ADDITIONAL ACCOUNTING ENTRIES MADE DURING THE TEST YEAR ASSOCIATED WITH THE WRITE-OFF OF THE ASSETS UNDER CONSTRUCTION?

A. Yes. During the test year $6.2 million of the write-off was reversed. According to Page 8.14.5 of the filing, the Property Accounting group conducted an investigation and was able to identify a portion of the items that were written off. Consequently, the Company reversed a portion of the write off on its books. In CCS 13.18, the Company was asked to provide a copy of all written analyses, memos, summaries, reports, etc. of the results of the investigation done by Property Accounting. The response merely provided a listing of the assets identified by Property Accounting and stated that "A search is being made for other supporting documentation." The items on the list that was provided totaled $26,575,525, not the $6.2 million that was reversed. No further documentation or support was provided and the Company did not provide a supplement to the response. Consequently, the only support for the amounts is a listing of assets and amounts. The listing does not indicate when the amounts were originally incurred.

Q. DOES THE WRITE-OFF AND SUBSEQUENT REVERSAL OF A PORTION OF THE WRITE-OFF IMPACT THE ADJUSTED TEST YEAR?

A. In the adjustment on Page 8.14 of the Company's filing, it attempted to reverse the $19.8 million write off and the subsequent reversal of part of the write off so that there would be no impact on the historical test year. However, in reversing the write-off, the Company made an error in the filing. When the reversal was originally booked, it was credited to both expense and CWIP. The adjustment in the filing assumes that the full amount was credited to expense. In response to CCS 13.17(5), the Company attempted to provide the correction that needed to be made to its filing. The correction provided in the response resulted in a $935,776 reduction to expense and a $175,541 reduction to accumulated deferred income taxes (which increases rate base), both on a Utah basis.

I attempted to trace the corrected reversals identified in the Company's response to CCS 13.17(5) into an expense account listing provided by the Company and was unable to tie the full amount into the Company's books. As a result, CCS Data Request No. 29.5 was submitted to the Company to attempt to reconcile the difference. In response, the Company provided yet another revised correction to its filing, superseding the response to CCS 13.17(5). The revised correction provided in the response resulted in a $1,058,716 reduction to expense and a $199,716 reduction to accumulated deferred income taxes (which increases rate base), both on a Utah basis. The revised correction to the Company's filing is provided on CCS Exhibit 3.5.

Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE ITEMS THAT WERE WRITTEN OFF DURING THE TEST YEAR?

A. Yes. According to the response to CCS 13.17(3), the Company was able to later identify $26.575 million of the projects with specific assets, and some of the projects were transferred to rate base after the end of the test year. Of the amount, approximately $9.9 million is either directly charged or allocated to Utah. Consequently, some of these projects will impact plant in service, accumulated depreciation and depreciation expense in future rate cases, if they are not specifically removed in the future cases. As previously mentioned, the majority of the work orders date back to 1990 through 1992, and some date as far back as 1983. According to the internal memo from Robert Dalley, interest continued to be capitalized on the work orders through early 1999. Numerous items on the list provided in response to CCS13.17(3) are for items such as computer software, computer equipment and vehicles, which typically do not have very long lives. The Company never provided an update to the response which requested the support, workpapers, reports, etc. associated with Property Accounting's investigation which identified the assets.

Prior to even considering the allowance of any of the items in rates in future cases, the Company should be required to provide detailed information for the items that were ultimately transferred to plant in service subsequent to the test year. At a minimum, the Company should provide the journal entries transferring the items to plant in service, a detailed description of each item, the dates the costs were initially incurred (i.e., some date as far back as 1983), the life of the items, the amount of interest that continued to accrue on the items through the date the accumulation stopped in early 1999, and the current use of the item. As part of the decision in this case, the Company should be required to specifically identify the items that were transferred to plant in service and provide detailed information about those items in its future semi-annual reports. If the Company is not required to do so, the items could "fall through the cracks," and essentially be automatically included in rate base in future cases. At this point, I recommend that the amounts be specifically excluded in setting future rates. These are historical items dating as far back as 1983 and are clearly out of period.

<u>Cholla Assets Under Construction Write Off</u>

Q. PLEASE DISCUSS THE COMPANY'S TEST-YEAR WRITE-OFF OF CHOLLA PRELIMINARY STUDIES.

A. During the test year, PacifiCorp wrote-off $2,533,066 for Cholla preliminary engineering and other studies involved in the feasibility of construction of combustion turbines at Cholla. Since the project was abandoned, the associated costs need to be written off. In its filing, PacifiCorp reversed the write off. It also made an adjustment to set up a regulatory asset for the amount written off and to amortize the balance over the remaining life of the Cholla Plant, which was 224 months. Consequently, test -ear expense includes $50,404 on a Utah basis for the amortization and rate base includes $470,436 on a Utah basis for the average balance of the regulatory asset.

Q. ARE THERE ADDITIONAL AMOUNTS IN THE TEST YEAR FOR WRITE-OFFS ASSOCIATED WITH THE CHOLLA PLANT?

A. Yes. During the test year, PacifiCorp also wrote-off $200,000 for a Cholla #4 turbine upgrade engineering study. The project was canceled, so the accumulated costs were written off. The Company did not adjust for this item in its filing, so it remains 100% on the books in the test year.

Q. WHEN WERE THE COSTS ASSOCIATED WITH THE CHOLLA COMBUSTION TURBINE ENGINEERING STUDY INITIALLY INCURRED BY PACIFICORP AND WHEN WAS IT DETERMINED THAT THE PROJECT WOULD BE CANCELED?

A. Data request CCS 13.21(2) specifically asked the Company to provide a detailed description and itemization of the $2,533,066 Cholla amounts being written off and to include the dates that the costs were initially incurred. The response did not provide the information requested. It did not provide an itemization of the costs and it did not indicate the dates the costs were incurred. The Company has provided little support for the actual historical costs that are being requested for recovery. I do note, from the little amount of information that was provided, the Company continued to accrue interest expense on the amounts through at least May 1999, even though the project was abandoned back in 1995.

Q. WERE YOU ABLE TO DETERMINE FROM OTHER INFORMATION WHEN THE COSTS WERE INCURRED?

A. No. However, the work order provided in response to CCS 13.21 was first set up in <u>1992</u>. The cost estimate provided with the work order identified PacifiCorp engineering costs based on man hours of $731,000. The response to CCS 13.24 indicates that the "Project was canceled March 1995..." With the exception of the AFUDC the Company continued to accrue, these costs would have been incurred prior to March 1995.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO THESE COSTS?

A. The amounts should be removed from the adjusted test year. As shown on CCS Exhibit 3.6, test year expense should be reduced by $124,691 on a Utah basis and Utah rate base should be reduced by $407,431. This removes the amortization of the costs that were written off and the additional write off made by the Company during the test year. It also removes the balance from regulatory assets. These are historical costs incurred prior to March 1995 for a project that was abandoned. The write off for the combustion turbine studies should have been made back in 1995 when it was determined that the project would not be pursued. The Company has provided absolutely no support for the specific amounts in which it is seeking recovery. Additionally, the Company continued to accrue AFUDC on the project for over four years after the project was abandoned. This is clearly an out-of-period item that should be disallowed.

Q. WHAT IS THE $200,000 TEST-YEAR WRITE-OFF FOR THE CHOLLA UNIT #4 TURBINE FOR?

A. I am not entirely sure. The Company identified the $200,000 that was written off for this item in response to CCS 5.25(a). It provided no additional information beyond the brief description of "Cholla Unit Turbine #4 Upgrade." A listing provided in response to CCS 13.24 indicated that the write off pertains to a "Cholla #4 turbine upgrade engineering study" and that the project was canceled. The listing indicates a "trigger date" of August 1999 for the project. No further information or support has been provided. This one-time write-off of apparent costs associated with a canceled project should be excluded from the test year. I would like to note that both of these Cholla write offs were included in the listing of potential "Fair Market Value" clean-up adjustments sent from Robert Dalley to the Company's external auditors.

<u>Additional Assets Under Construction Written Off</u>

Q. WERE ANY ADDITIONAL ASSETS UNDER CONSTRUCTION WRITTEN OFF DURING THE TEST YEAR?

A. Yes. Page 8.15.2 of the filing identifies an additional $400,000 written off during the test year for assets under construction that were abandoned. This write off is also included in the "fair market value" clean-up memo. In the adjustments on Page 8.15 of the filing, the Company reversed the write off, but it also amortizes part of the write off over a three-year period and includes the unamortized balance as a regulatory asset in rate base. The Company removed $99,839 from the write off that it is seeking recovery for to remove the amounts associated with Centralia. The remaining balance of $300,161 is being amortized over three years in the filing. The response to CCS 5.25(b) indicates that the projects were abandoned "due to business unit direction."

Q. WHAT ITEMS WERE WRITTEN OFF?

A. According to the response to CCS 13.22, included in the items which PacifiCorp is seeking recovery of are the following:

– Hunter Plant Controls Consolidation for $83,328. The response indicates that the project was to a implement controls replacement program for the

Hunter plant. The response also indicates that "The project was never implemented and erroneous time was charged to the project without authorization. No ER was authorized and should be written off." (Emphasis added)

- Copco 2OCB replacement for $158.
- Adjust the Druck probe at Pelican for $59. The response indicates that this was a maintenance item.
- Merwin Unit 3 Replace Transformers for $1,719. This project was canceled due to lack of justification.
- Yale Replace SF6 generator for $2,795. This project was budgeted but canceled due to lack of justification.
- Swift 2 PDA sensors for unit 1 for $301. This was a budgeted project that was canceled.
- NU Line 42 Relaying - Toketee SW for $249,095. This project was to install equipment on existing fiber optic lines and replace relay lines. The project had two parts, one of which was canceled.

Data request CCS 13.22 asked the Company to provide a detailed itemization of all the costs incurred and to include the dates the costs were incurred. It is not possible to tell from the information provided what the specific costs were or when the amounts were initially incurred. The information did indicate that some of the costs were associated with AFUDC. The amounts for the projects provided in response to data request CCS 13.22 differ from the amounts listed in the Company's adjustment for the items. The amounts provided in response to data request CCS 13.22 total $337,455 and do not include Centralia whereas the filing includes $300,161 for the same projects. The response indicates that only $337,455 was written off instead of $400,000. Apparently, there is an error in the Company's schedule.

Q. WHAT DO YOU RECOMMEND?

A. I recommend that the Company's adjustment to amortize the balances written off over 3-years be removed and the unamortized balance be removed from rate base. The response to CCS 13.22 indicates that some of the amounts recorded in the Hunter project were erroneous and charged without authorization. Several of the projects are extremely small in amount (i.e., $59, $158, $301, etc.) and clearly should not be set up as regulatory assets. Additionally, the Company has provided very little support for the costs that are being included and did not specifically identify when the costs were actually incurred. Some of these could be costs dating far back in time. This project was also listed in the "fair market value" clean-up items. I removed the requested amortization expense and regulatory asset on CCS Exhibit 3.7, reducing Utah expense by $37,164 and Utah rate base by $9,291.

<u>Obsolete Inventory Write-Offs/Reserve</u>

Q. PLEASE DISCUSS THE COMPANY'S WRITE-OFFS ASSOCIATED WITH OBSOLETE INVENTORY.

A. According to the Company's 10-Q for the period ended December 31, 2000, expenses for the period included $4 million of write-offs of obsolete inventory. All of these write offs fell within the historical test year in this case. The write-offs include $2,463,245 to establish an obsolete inventory reserve, $1,201,695 for materials and supplies that were overvalued at the Jim Bridger mine, and $254,445 for obsolete inventory at Energy West. In its filing, the Company included an adjustment to amortize the Bridger materials and supplies write off over a three-year period; however, it made no similar adjustments for the remaining inventory write-offs. Consequently, the remaining two write-offs remain 100% in the historical test year.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO THE TWO INVENTORY WRITE-OFFS THAT PACIFICORP DID NOT ADJUST FOR IN ITS FILING?

A. I recommend that the impact on test year expense associated with the two inventory write offs be removed from the test year. It is not appropriate to include 100% of the costs associated with the initial set-up of the reserve in the historical test year. CCS data request 5.26 asked the Company to provide a detailed description and listing of all assets included in the obsolete inventory that was written off. The Company's response provided no support or information regarding the write off to establish the obsolete inventory reserve, nor did it indicate how the amount was determined. As shown on CCS Exhibit 3.8, test-year expenses should be reduced by $2,717,690 on a total Company basis and $1,009,448 on a Utah basis.

Property Insurance Reserve

Q. PLEASE DISCUSS THE ACCOUNTING ENTRY MADE BY PACIFICORP DURING THE TEST YEAR TO INCREASE ITS PROPERTY INSURANCE RESERVE.

A. Previously in this testimony, I discussed a January 13, 2000, internal memo from Robert Dalley, the Company's previous Comptroller and Chief Accounting Officer (CCS 13.25). In the memo, Mr. Dalley discussed adjustments that would impact PacifiCorp's trial balance at the final merger closing. Included in the four separate adjustments specifically addressed was an adjustment to increase the property insurance reserve. The memo addressed the adjustment as follows:

> The purpose of this reserve is to cover self-insured losses as a result of accident, fire, weather and other hazards to property. These reserves are included in asset base for rate recovery. Estimated annual expenses have been between $5.0 and $8.0 million per year. A positive impact on earnings will result if claims against the reserve are less than anticipated. With this reserve the potential of a negative earnings impact in the year 2000/2001 is mitigated.

The memo also states that "The $4 million charge would likely not require disclosure because of similar expense level recorded in 1999 ($8 million versus $10 million)." In other words, the charge would not need to be specifically identified in the footnotes to the Company's financial statements.

Q. HOW DID THE COMPANY RECORD THE ADJUSTMENT ON ITS BOOKS?

A. According to the response to CCS Field Data Request No. 12, PacifiCorp charged $4,000,000 to SAP Account 548000 - Property Insurance Costs, which translates to FERC Account 925.1 - Insurance Premiums, in November 1999. It also increased the Accumulated Provision for Property Insurance - Thermal by $1.8 million and the Accumulated Provision for Property Insurance - T&D Lines by $2.2 million.

Q. DID PACIFICORP PROVIDE ANY FURTHER INFORMATION ON THIS ADJUSTMENT TO ITS RESERVE?

A. CCS Field Data Request No. 12 asked the Company to provide a detailed description of the adjustment. It also asked the Company if the adjustment was a one-time charge and if it was made on the books. The only support the Company provided for the $4 million charge included in the test year, beyond the actual journal entry, was the description that "This adjustment was made to reflect the ongoing anticipated reserve requirements of the Company." The response also indicated that it was "a one-time adjustment." No further support or analysis was provided.

Q. DO YOU RECOMMEND THAT THIS ITEM BE REMOVED FROM THE TEST YEAR?

A. Yes. Despite the fact that the Company was asked to provide a <u>detailed</u> description of the adjustment, the Company has failed to demonstrate that this significant charge and the resulting total level of property insurance expense recorded in the test year is reflective of ongoing cost levels. The Company provided no information demonstrating how the $4 million charge to the reserve was determined. The Company indicated that this was a one-time adjustment. PacifiCorp also included this item in its discussion of pre-merger entries that would impact PacifiCorp's trial balance at the time of the merger and indicated that it may result in higher earnings after the merger. The Company's internal memo indicated that the estimated annual expenses have been between $5 million and $8 million. It also indicated that "the $4 million charge would likely not require disclosure because of similar expense level recorded in 1999 ($8 million versus $10 million)." Apparently this large charge resulted in a 1999 cost level of $10 million based on the memo, which is definitely higher than the $5 million to $8 million historical cost level identified in the same memo. As shown on CCS Exhibit 3.9, I recommend that test-year expenses be reduced by $1,483,096 on a Utah basis to remove the impact of this one-time accounting entry.

FERC Contingency Write-Off

Q. ARE THERE ANY CORRECTIONS THAT NEED TO BE MADE TO THE REMAINING WRITE-OFFS THAT YOU HAVE NOT SPECIFICALLY ADDRESSED?

A. Yes. On page 8.16 of its filing, PacifiCorp made an adjustment to remove from the test year the impacts of a FERC liability accrual it booked during the test year. Based on a review of the Company's responses to CCS 13.26 and CCS 13.27, it appeared that both the contingency and the reversal of the contingency were booked during the historical test year. As a result, the Company's adjustment would result in a double removal of the contingency. In response to CCS 28.27, the Company agreed that it had made an error in the filing and that the adjustment contained in the filing for this item should not have been made. In the response, PacifiCorp indicated that "Regulation was not aware that the FERC contingencies were reversed at the time this filing was made." This error, along with some of the other errors noted in my testimony and the testimonies of Committee witnesses Hugh Larkin and Helmuth Schultz, causes a great deal of concern. The main concern is that there may be additional errors that have not yet been discovered. CCS Exhibit 3.10 reflects the reversal of the Company's adjustment for the FERC liability accrual, decreasing Utah revenues by $482,833 and decreasing rate base by $184,149.

<u>Blue Sky Program</u>

Q. DOES THE ADJUSTED TEST YEAR INCLUDE REVENUES AND COSTS ASSOCIATED WITH THE BLUE SKY PROGRAM?

A. Yes. The Blue Sky program allows customers to purchase “shares” of renewable energy. Customers purchase 100 kWh blocks of renewable power electricity for monthly fees. The payments go toward the purchase of wind power. The revenues and expenses associated with this program remain in the test year.

Q. SHOULD THE COSTS AND REVENUES BE REMOVED?

A. In response to DPU 2.6, PacifiCorp indicated that an adjustment to remove the revenues and expenses was “inadvertently omitted from the filing.” The Company indicated that the Utah revenues of $7,607 and the Utah expenses of $167,115 associated with the program should be removed. CCS Exhibit 3.11 reflects the removal of Blue Sky Program from the test year.

<u>Stoel Rives Pricing Settlement</u>

Q. ARE THERE ANY LEGAL FEES THAT SHOULD BE REMOVED FROM THE TEST YEAR?

A. Yes. In the documents provided by PacifiCorp during Larkin & Associates on-site visit to the Company’s offices was a listing which included items identified as November 1999 pre-merger non-recurring entries. Included in this listing was “Stoel Rives Pricing Settlement for Previous Discounted Legal Fees” of $579,197. CCS Field Data Request No. 8 asked the Company to provide a more detailed description of the item and to provide the amount included in the adjusted test year for the item.

Q. WHAT WAS THE COMPANY'S DESCRIPTION OF THE COST?

A. The response indicated that the charge "...relates to Stoel Rives' legal fees incurred during March thru September 1999 that were discounted by Stoel Rives on the condition that they would be paid by PacifiCorp upon the successful completion of the ScottishPower Merger." The entire amount, totaling $579,197, remains in the test year.

Q. SHOULD THESE COSTS BE REMOVED?

A. Yes. The cost pertains to fees incurred prior to the historical test year. The additional amounts PacifiCorp had to pay to its outside attorneys for previous discounts for pre-test year services should not be in test-year expenses for setting rates. Additionally, since the previous discounts had to be paid upon successful completion of the merger, the legal fees may pertain to merger-related matters. The Company's description did not include a discussion of why the legal fees were discounted to begin with, nor why the payment of the previous discount was triggered by the merger. On CCS Exhibit 3.12, I remove these legal fees from the test year, resulting in a $214,751 expense reduction on a Utah basis.

<u>Transition Team Costs</u>

Q. PACIFICORP RECENTLY DEVELOPED A DETAILED MERGER TRANSITION PLAN. WHAT LEVEL OF COSTS WERE INCURRED DURING THE TEST YEAR FOR THE DEVELOPMENT OF THE TRANSITION PLAN?

A. Costs associated with the development of the merger transition plan were booked in Cost Center 13020 - ScottishPower Transition Team. The Transition Team began operation in November 1999, and the cost center was closed October 31, 2000, after the transition plan was completed. In response to DPU 2.21, the Company indicated that test-year charges to the cost center were

$8,088,824. However, when questioned regarding discrepancies between various data responses, the Company revised the amount to $8,204,286 in response to CCS 20.14. According to the response to CCS 5.5, the management fees from Cost Center 13020 during the test year were $6,561,313. I assume the $6,561,313 management fee is the amount included in total Company electric operations expense for the Transition Team; however, there are currently data requests outstanding which seek to confirm this. According to the response to DPU 17.1, not all charges to Cost Center 13020 were included in the management fee in the test year.

Q. SINCE THE TRANSITION PLANNING PHASE IS COMPLETE, WILL THE TYPE OF COSTS CHARGED TO THE TRANSITION PLANNING COST CENTER DURING THE TEST YEAR RECUR?

A. No. As previously mentioned, the Transition Planning cost center was closed in October 2000. The costs recorded in that cost center were for the development of the transition plan. Consequently, the level of expense included in the test year for transition planning is not a recurring cost.

Q. SHOULD THESE COSTS BE REMOVED FROM THE TEST YEAR?

A. Not entirely. I recommend that the transition planning expense recorded during the historical test year be amortized over a five-year period. The initial transition plan has been developed and is being implemented. The transition plan is a five-year plan, with the associated cost savings being implemented over a five-year period. A five-year amortization of the planning expenses recorded during the test year would allow for the matching of the costs with the resulting benefits and with the plan duration.

Q. HAVE YOU PREPARED AN EXHIBIT CALCULATING THE ADJUSTMENT NECESSARY TO AMORTIZE THE COSTS OVER A FIVE-YEAR PERIOD?

A. Yes. CCS Exhibit 3.13 provides the adjustment necessary to reflect a five-year amortization of the costs that were expensed during the historical test year. The adjustment results in a $1,946,211 reduction to test-year expense on a Utah basis. In calculating the adjustment, I assumed the expense included in the test year for the total Company electric operations was the $6,561,313 management fee from Cost Center 13020. As previously mentioned, there are currently data requests outstanding (and overdue) to confirm this amount.

Additionally, I am concerned with the appropriateness of some of the specific costs that were recorded in Cost Center 13020 during the historical test year. Numerous data requests are outstanding (and late) regarding specific charges that were recorded in the cost center. Depending upon the information contained in the responses, I may supplement this testimony to recommend that specific costs be removed from the Cost Center charges prior to the amortization.

<u>Miscellaneous Outside Services Expense</u>

Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON CCS EXHIBIT 3.14?

A. Test-year expenses include several costs that should not be charged to ratepayers. Included in the items specifically removed on CCS Exhibit 3.14 are the following:

- Charges from Monitor Company of $738,656 on a total Company basis. The services were for the development and evaluation of alternatives for implementing Retail Access, evaluation of alternative Regional Transmission Operator structures and rules and support/oversight of the Company's Market Clearing Price Model. Monitor also provided assistance in analyzing direct access, forecasting market prices, and determining stranded costs/benefits under various market conditions.
- Charges of $3,085,000 from McKinsey Co., Inc. on a total Company basis. The services provided were for strategic planning. In response to CCS 29.20, PacifiCorp agreed these costs should more appropriately be

recorded below-the-line.

- Charges of $60,000 for a tax equalization payment. According to CCS 29.21, the payment was a tax equalization payment made to the IRS for John Smith, an Australian expatriate rending services for PacifiCorp in the United States.
- Charges of $337,937 from New Harbor, Inc. The charges from New Harbor, Inc. were all associated with the sale of Centralia. This is a non-recurring cost.
- Charges of $40,000 from the Hydro Power Task Force. The charges are for a special assessment for an industry task force for Legislative reform.
- Bank of New York Shareholder Services Accrual of $982,200. During the test year, the Company booked monthly accruals for shareholder services to be provided by the Bank of New York for both common and preferred stockholders. Subsequent to the test year, it was determined that ScottishPower picked up the administrative services for common stockholders. It was also determined after the test year that the administrative costs for preferred stockholders were already included in bank service fees. The accruals made during the test year for these items, totaling $982,200 were reversed after the test year, and should be removed from the test year. PacifiCorp agrees that the total accruals of $982,200 should be excluded.

Ratepayers should not be required to fund these costs in rates. As mentioned above, PacifiCorp has already agreed that two of the items should be removed. Exhibit 3.14 reduces Utah allocated costs by $1,944,312 to remove these items from the test year. There are still numerous Committee data request outstanding regarding some of the specific expenses included in the historical test year. I plan to supplement this adjustment upon receipt and review of the outstanding and over-due responses, as necessary.

B. DO YOU HAVE ADDITIONAL CONCERNS REGARDING YOUR REVIEW OF VARIOUS EXPENSES RECORDED DURING THE TEST YEAR ENDED SEPTEMBER 30, 2000?

A. Yes. The Committee's Twelfth set of data requests asked that certain information be provided for review on-site at the Company's offices. CCS Data Requests 12.20 and 12.21 asked for a detailed summary of all amounts exceeding certain parameters for certain expense accounts. The accounts listed were FERC accounts used in the Company's previous accounting system. The Company provided the listings on-site, and we obtained copies of the listings. From those listings, we prepared CCS Field Data Requests 9, 10 and 11. The Field Data Requests asked for copies of invoices for specific items contained in the expense account listings. The requests also asked for the amount associated with the specific items included in the adjusted test year on a total Company and Utah basis.

One of the listings provided by the Company during our on-site visit, in response to CCS 12.19, was identified at the top of each page as being a listing of charges to Account 923 - Outside Services. In CCS Field Data Request No. 9, we requested copies of invoices for 19 of the items included in the listing. According to the response, of the 19 items listed, only eight of the items were actually in Account 923. Four of the items ended up in Account 426, which is below-the-line, and seven items were in FERC Account 921. In other words, from the sample of invoices selected from a listing that was purportedly charges that ended up in Account 923 - Outside Services, only 42% of the items selected were actually included in that account. Similar discrepancies occurred for the other accounts for which specific invoices were requested.

Q. DID YOU ASK THE COMPANY WHAT CAUSED THE DISCREPANCIES AND WHICH OF THE RESPONSES IDENTIFIED THE CORRECT ACCOUNTS?

A. Since the responses to the field data requests seeking the invoices were not received until May 25th (37 days after they were submitted), the Company was verbally asked regarding the discrepancies. According to discussions with Company personnel, the listings provided on-site were incorrect. For example, the listing of expense included in FERC Account 923 includes charges to accounts other than Account 923. I am concerned that there may be additional charges included in Account 923 - Outside Services, which have not been provided by the Company. I have the same concern for the other account listings provided during Larkin & Associates on-site visit to PacifiCorp's offices. From the listings provided while on-site, it is not possible to identify what accounts the charges actually appear in, if the charges are in the account specifically identified at the tops of the listings, or even if the charges are above or below-the-line.

According to the Company personnel, PacifiCorp's SAP accounting system utilizes SAP natural accounts, as opposed to FERC accounts. The SAP natural accounts are then translated into FERC accounts. The order number and location codes used when booking a charge also impact the FERC account the charge ultimately translates to. For example, the order number takes precedence in the translation. There is not a manual that can be quickly referenced to determine which FERC account a particular charge ultimately translates to. The translation depends on if there is an order number, the location number and the SAP natural account. The Company personnel did not know what specific parameters were used by the employees who prepared the responses to the on-site data requests seeking the listings by accounts. The fact that inaccurate and possibly incomplete listings were provided hampered our analysis of the specific costs recorded during the test year. Consequently, there may be additional inappropriate charges included in the adjusted test year that were unable to be identified.

Annualization of Contract Cost Savings

Q. ARE THERE ANY COST SAVINGS WHICH OCCURRED DURING THE TEST YEAR THAT HAVE NOT BEEN ANNUALIZED?

A. Yes. The Company's August 2000 Corporate Business Services Operational Report indicated that a new Lucent phone switch maintenance contract was implemented during the test year, resulting in annual savings of $120,000. According to the response to CCS Field Data Request No. 16, the new maintenance contract was signed July 25, 2000. The cost savings included in the test year ended September 30, 2000 was $20,000. The annualization of these savings reduces expenses by $100,000 on a total Company basis and $37,077 on a Utah basis.

The February 2001 Power Delivery Operational Report (dated March 22, 2001) contained a summary of sixteen significant procurement successes for the period May 2000 through February 2001. In response to CCS Field Data Request No. 17, PacifiCorp provided the effective dates of the new contracts, the annual savings from the new contracts and the amount of savings reflected in the historical test year. According to the response, $1,175,000 of expense savings are reflected in the test year for three separate contracts on a total Company basis. These three contracts were effective in April 2000 and are with Trees, Inc., Fluor Maintenance and Westinghouse Controls. The savings result from competitively bid price reductions.

Q. SHOULD THE SAVINGS FROM THESE TEST-YEAR CONTRACTS BE ANNUALIZED?

A. Yes. Since the contracts were effective in April 2000, only six months of savings are reflected in the historical test year. Each of the contract cover multiple years, so the savings will continue beyond the test year. On CCS Exhibit 3.16, I provide the adjustments necessary to annualize the impact of the savings from the Lucent Phone switch maintenance contract and the contracts with Trees, Inc., Fluor Maintenance and Westinghouse Controls. As shown on the exhibit, test-year expenses should be reduced by $475,012 on a Utah basis in order to annualize the expense reductions.

Q. WERE ADDITIONAL PROCUREMENT CONTRACT COST SAVINGS IDENTIFIED IN THE COMPANY'S RESPONSE TO THE FIELD DATA REQUEST?

A. Yes. The response to CCS Field Request No. 17 identified additional annual cost savings of $8,116,000 on a total Company basis for contracts that were effective in January, February and March 2001. These annual savings result from competitively bidding contracts and negotiating price reductions. Since these contracts were effective after the end of the test year, I have not reflected the additional $8.116 million of annual savings.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, at this time. However, the Company was late (in some cases extremely so) in responding to numerous Committee data requests, making a detailed review and follow-up of such information extremely difficult within the established time constraints in this case. Additionally, several of the responses were not fully responsive to the questions asked, resulting in the need to either ask additional follow-up questions or request that the Company supplement its original responses. There are still numerous Committee data requests outstanding. Consequently, it may be necessary to file supplemental testimony on several issues that are still under investigation.