Docket No. 04-035-42
Bart S. Croxford
Exhibit No. DPU 5.0
December 3, 2004

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp	)	
for Approval of its Proposed Electric Rate Schedules	)	DOCKET NO. 04-035-42
& Electric Service Regulations	)	

PREFILED DIRECT TESTIMONY OF

BART S. CROXFORD

FOR THE

DIVISION OF PUBLIC UTILITIES

DEPARTMENT OF COMMERCE

STATE OF UTAH

DECEMBER 3, 2004

I. QUALIFICATIONS

Q. PLEASE STATE YOUR NAME FOR THE RECORD.

A. Bart S. Croxford.

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, Fourth Floor, Salt Lake City, Utah, 84114.

Q. WHAT IS YOUR POSITION?

A. Utility Regulatory Analyst.

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Arts in Accounting from the University of Utah in 1976. I am also a certified public accountant. I was employed by Utah Power & Light and PacifiCorp for a total of nineteen years in the accounting and power supply operations departments. With the Division, I have worked mainly in the regulation of telecommunications utilities. I am responsible for auditing companies in preparation for rate cases, making recommendations to the Commission after reviewing contracts, tariffs, applications for competitive entry, etc. Currently, I have been asked to examine issues in conjunction with the application of PacifiCorp in this docket .

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony addresses the revenue requirement impact of the WAPA imputation, cost of debt, capital structure, and employee headcount issues.

III. ADJUSTMENTS

1. WAPA IMPUTATION

Q. PLEASE EXPLAIN YOUR ADJUSTMENT FOR THE WAPA IMPUTATION.

A. To review briefly, this originated in 1962 when the Utah Power & Light Company entered into a fixed-rate contract of 80 years duration with the United States Bureau of Reclamation (later the Western Area Power Administration, or WAPA) to wheel Colorado River Storage Project (CRSP) power over the Company's transmission system to public power "preference" customers. Some years later Utah Power purchased CP National Corporation's Utah system and thereby acquired a wheeling contract between CP National and the Bureau of Reclamation, having the same purpose and wheeling rate as the Utah Power contract.

PacifiCorp claims that there are several benefits from the WAPA wheeling contract. There are, no doubt, some benefits, as Ted Weston pointed out in his testimony, but they still do not justify a contract to wheel energy at 1962 prices with no escalation for 80 years. The price in 1962 was $4.20 per kilowatt-year compared to the current rate of $24.30, as shown in the response the DPU Data Request 2.9.

Utah ratepayers have subsidized the CRSP “preference customers” for nearly 40 years and will continue to do so for nearly another 40 years if no adjustment is made. The Company has regularly omitted the WAPA adjustment in rate case filings since 1982, when an adjustment was first ordered by the Commission in Docket No. 82-035-13. The Commission recognized that the contracts were not compensatory and ordered an imputation of revenues based on the then-current Federal Energy Regulatory Commission wheeling rate of $24.12, to prevent the subsidy that otherwise would flow from Utah Power’s retail customers to CRSP preference customers. Revenue imputation for these WAPA contracts has been the Commission’s policy since then.

At some point in the mid-1990s, the Company, on its own volition stopped recording a revenue imputation in its semiannual reports on operations. Though this change in Company procedure was not reported to the Commission, the Division testified in Docket No. 99-035-10 that it routinely restored the imputation during its audits of annual operations. In Docket No. 97-035-01, the Company did not impute revenues for the contracts, but the Committee proposed it as an adjustment. However, the 1997 case was stipulated and this prevented the issue from coming to the Commission's attention until Docket No. 99-035-10.

The calculation of the adjustment as shown in Exhibit DPU 5.2 takes the current FERC wheeling rate of $24.30 per response to DPU Data Request 2.9 and converts it to a monthly rate so that the amount that would have been available to the Company can be calculated. This monthly rate of $2.025 is then applied to the number of kilowatts (3,596,624) that are delivered to preference customers of to arrive at an amount that the Company would have realized had it charged the market wheeling rates, resulting in *pro forma* revenues of $7,283,164. The difference between the amount that the Company actually realized of $2,795,318 in the last twelve months of actual data (through June 2004) and the $7,283,164 of *pro forma* revenues represents the amount that ratepayers are subsidizing preference customers: $4,487,846.

The FERC wheeling rate has remained relatively constant, given the FERC wheeling rate has increased only from $24.12 to $24.30 since the rate case in Docket No. 99-035-10. Of this amount, the Utah portion is $1,847,502 as shown in Exhibit 5.2. Therefore, I recommend that the

Commission impute $1,847,502 in WAPA wheeling revenue in this docket to avoid the rate subsidy to CRSP preference customers.

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2. COST OF DEBT

Q. PLEASE DESCRIBE THE COST OF DEBT ADJUSTMENT.

A. In his testimony, Company witness, Bruce N. Williams, showed several exhibits for financing and refinancing of long-term debt that the Company must incur and which would increase the rates.

Since his testimony was filed, the Company has taken advantage of a decline in interest rates and refinanced $200 million of 10-year first mortgage bonds and $200 million of 30-year first mortgage bonds. These mortgage bonds were issued at 5.5% rather than the 5.92% that was projected in Exhibit BNW-1.xls. The refinanced mortgage bonds reduced the company's cost of debt from the amounts in the Company's application. Also, $20 million of 8.625% bonds will be redeemed in December 2004, which will eliminate $1,787,600 in annual debt service cost as shown in Exhibit BNW-1.xls.

These reductions in the cost of debt reduce the overall cost of debt of 6.54% referred to in Mr. Williams' testimony to 6.405%, as shown in DPU

Exhibits 5.3.1 and 5.3.2 and in his responses to DPU Data Request 17.2. This reduction in the cost of debt will be reflected in the Division's cost of debt model. Therefore, these adjustments will not be shown separately by the Division.

The fact that the interest rates have already decreased in the case of the $400 million of first mortgage bonds and that $20 million in bonds that will be redeemed raises the concern that the other rates in the Company's testimony may be overstated. However, there is no way of quantifying what interest rates and the cost of debt will be in the next month, let alone in the next year-and-a-half. Therefore, the Division views this adjustment to the cost of debt as a conservative adjustment.

3. CAPITAL STRUCTURE

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE CAPITAL STRUCTURE.

A. The Company proposes to increase the common equity ratio from 45.95% in FY05 to 49.5% in FY06.

Common equity is the most expensive item in the capital structure and is subject to income tax expense. It is also much more expensive than the cost of debt. The Company's common equity ratio of 45.95% is adequate to support its current bond rating; therefore, a common equity ratio of 49.5% is not necessary and Utah ratepayers should not bear the cost of the change. If there is a beneficiary of the change in capital structure, it is the stockholders of the Company and they should, therefore, bear the cost of the change.

The numbers for the change in capital structure are taken from Bruce Williams' Exhibit BNW-4.xls. Common Equity for FY05 is $3,392,660,000 and $4,021,015,000 for FY06. Total Capitalization is $7,383,708,521 and $8,122,939,521 for the same two years, respectively. The change in capitalization for FY05 to FY06 are: Long-Term Debt decreases from 52.78% to 49.39%, Preferred Equity decreases from 1.27% to 1.11%, and Common Equity increases from 45.95% to 49.5% (Exhibit DPU 5.1).

The Company has historically filed for Common Equity of 46% and the Commission has accepted this rate. At any rate, the burden of proof is on the Company to justify the increase in Common Equity. I have not seen any argument by the Company to justify the increase, whether in direct testimony or in a response to a data request.

The adjustment will be reflected in the Division's capital structure model and will, therefore, not be shown as a separate adjustment. Even though

Common Equity increased from 45.95% to 49.5% from FY05 to FY06, the Company has taken an average of 47.8% for the two years and has used this in its capital structure. The Division's adjustment will keep the average Common Equity ratio at 46% in its model. However, it is evident that the Company will increase the Common Equity ratio even more in the future if it is given license to do so in this rate case because it has already proposed that it increase to 49.5% in FY06.

4. EMPLOYEE HEADCOUNT

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE EMPLOYEE HEADCOUNT.

A. The Company has consistently budgeted approximately 200-400 more permanent full-time employees than it has actually employed for at least the past year-and-a-half. The Division believes that this is also true for FY05 and FY06 projections in the Company's rate application. Proprietary DPU Exhibit 5.4.2 shows how many fewer people the Company has employed than projected, according to the Company's performance reports to the PacifiCorp Chief Executive Committee.

As shown in DPU 5.4, in August 2004, which is the last month for which actual numbers are given in the rate case filing (JTW-1), the Company forecasted 6,445 employees but actually employed 6,186. The Company has forecasted 6,578 for FY06. If the same ratio that the Company used for projecting the increase in employee headcount (6,578 divided by 6,445), then the actual employee count for FY06 should be 6,314 -- a difference of 264 employees.

The 264 employees are then multiplied by the labor with overheads per employee of $105,739.08 and the result is an over-projection of labor of $27,918,118 on a company-wide basis. Utah's portion of this amount is $11,615,202 as shown in DPU Exhibit 5.4.

According to the Company's response to the Committee's Data Request 23.17, it has implemented a hiring frost or freeze for at least another six months. This strengthens the argument that the headcount will be lower than it has projected. The Company's response to the Committee's Data Request 6.18 indicates that it projected 275 more employees than it actually employed for August 2004, the most recent month for which actual data is available. With the hiring frost, even the increase from 6,186 employees in August 2004 to 6,314 in March 2006 is questionable. Therefore, this adjustment appears to be conservative.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

RESUME
BART S. CROXFORD

EDUCATION:

Bachelor or Arts, Accounting: University of Utah, 1976, Magna Cum Laude

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CPA STATUS:

Licensed in Utah since 1981

EMPLOYMENT:

July 1997 to present: Utah Division of Public Utilities
160 East 300 South, Suite 400
Salt Lake City, UT 84114

Position: Utility Regulatory Analyst
Description: Primary responsibilities include reviewing and analyzing financial statements, tariffs, contracts, and applications of telecommunications companies and making recommendations to the Commission. Responsibilities also include auditing telecommunications companies in preparation of rate cases.

Jan. 1989 to Nov. 1995: PacifiCorp/Utah Power & Light Company
825 NE Multnomah
Portland, OR 97032

Position: Power analyst
Description: Compiled and analyzed power plant loads and costs for management.

April 1977 to Jan. 1989: Utah Power & Light Company
1407 W. North Temple
Salt Lake City, UT 84116

Position: Accountant
Description: Prepared cost analyses and billings involving Company property.
