Q. Please state your name, business address, and present position with PacifiCorp.

A. My name is Craig P. Johnson. My business address is 201 South Main, Suite 2300, Salt Lake City, Utah. My present position is Regulatory Consultant.

Q. Briefly describe your educational background, professional training and experience.

A. I graduated from Brigham Young University in 1981 with a Bachelor of Science Degree in Accounting. After working at General Telephone, I joined PacifiCorp in 1984. My assignments at the Company have included work in the Regulation, Financial Planning, and Financial Analysis departments. My primary responsibilities presently include preparing rate cases and analyzing regulatory issues facing the utility.

Q. What is the purpose of your testimony?

A. I address the adjustment to impute revenue relative to the Western Area Power Authority (WAPA) contract proposed by AARP witness Ron Binz, CCS witness Helmuth Schultz, and DPU witness Bart Croxford.

Q. Did the Commission explicitly adopt the revenue imputation approach relative to WAPA, in Docket No. 99-035-10, which is the premise sponsored by the AARP, CCS, and DPU in this case?

A. No. In Docket No. 99-035-10, the Commission said, “Without explicitly ruling on the Division’s testimony that the Company behaved imprudently by entering into long-term contracts having no escalation provisions, we conclude that the record contains no basis upon which to adopt the Company’s rationale for abandoning the imputation policy, and we will not do so." My testimony presents the current facts and rationale for appropriate regulatory treatment.

A number of facts have changed relative to prior years. Namely the WAPA revenue requirement has declined. Typically, the revenue requirement of transmission lines is large in the early years when the assets are new. In later years, when the assets become largely depreciated, the revenue requirement decreases. Today, many of the transmission lines devoted to the WAPA wheel are nearing the end of their book lives, but not their operational lives. When all the facts are laid out, I maintain that the best approach to ensure no subsidy occurs is to remove all revenue, expense and rate base relative to the WAPA contract or, alternatively, make no adjustment.

Q. Does the WAPA wheeling contract provide benefits to Utah customers?

A. Yes. The WAPA contract currently provides a revenue source greater than the cost of providing service under the contract. In FY2004, total actual wheeling revenues were $2.8 million. The operating and maintenance cost attributable to the WAPA wheel was $183,000. This is based on the fact that the transmission service provided to WAPA represents approximately 10 percent of the total Utah control area wheeling load served by PacifiCorp and that the total maintenance on the facilities used in the WAPA service was $1,826,000 in 2003. Therefore, out of the $2.8 million of annual revenue from WAPA, approximately $2.6 million was available as a contribution to fixed costs. Recognizing that the assets serving the WAPA wheel are more than 42 years old and largely depreciated, the net revenue contribution clearly exceeds current costs and therefore provides a benefit to customers.

Q. Does the WAPA contract provide any other benefits to Utah customers?

A. Yes. As compared to the standard transmission tariff, the wheeling contract results in short term transmission marketing opportunities for PacifiCorp. PacifiCorp Transmission Systems actively markets available transmission scheduling rights over its Open Access Same-time Information System ("OASIS"). These available transmission rights can be from uncommitted transmission capacity or from transmission capacity committed to others that remains un-scheduled (as is the WAPA contract transmission capacity throughout the year). These short-term transmission sales appear as revenue credits against the total system cost of service allocation to Utah retail customers, which lowers rates. In 2003, PacifiCorp's short term wheeling revenues associated with imports from Mona, Four Corners and Glen Canyon were $1,506,222; $837,812; and $237,725 respectively. This level of revenue would no doubt be reduced if WAPA controlled the flexibility in its scheduling practices or if it owned the right to re-market its transmission rights to others over these paths.

Q. Why are other firm wheeling contracts priced on PacifiCorp's average embedded revenue requirement?

A. Current pricing complies with FERC requirements. Under PacifiCorp's Open Access Transmission Tariff, PacifiCorp currently provides two types of firm wheeling service, Point-to-Point and Network. Both reflect rates designed to provide revenues based on an average embedded revenue requirement. Under these agreements, a transmission customer is entitled to use the entire transmission system of PacifiCorp in exchange for paying a single system wheeling rate. For Point-to-Point customers, that rate is set by FERC tariff. Payment entitles the customer to the full firm rights on the contract transmission path. This would include the firm scheduling rights up to twenty minutes before each hour as well as the right to re-market its firm transmission reservation to other parties. Any revenues from such re-marketing would belong to the customer. In addition, a Point-to-Point customer can select alternative receipt and/or delivery points throughout PacifiCorp's entire transmission system with no additional charges from PacifiCorp. Network customers pay for transmission services based on their contribution to PacifiCorp's average transmission system coincidental peak. They can use PacifiCorp's entire transmission system in serving their loads. Firm resources are deliverable on a firm basis, and alternate resources can be substituted up to twenty minutes before each hour with the highest level of priority for any non-firm use of the transmission system (i.e. PacifiCorp would have to curtail non-firm transmission service). In addition, PacifiCorp must plan and construct for these customers' load growth. The level of service that both Point-to-Point and Network transmission customers enjoy justifies a charge based on PacifiCorp's total transmission system cost of service.

Q. How does the service available to WAPA under the contract differ from the service provided to PacifiCorp's transmission customers paying for service based on average embedded transmission pricing?

A. The level of rights and options available to WAPA is limited when compared to tariff service. For example, WAPA is restricted to the use of only those points of interconnection and points of delivery listed in the contract. WAPA may not substitute alternate resources or deliver its energy to alternate points of delivery. WAPA may not re-market any of its transmission rights to any party. Unlike tariff customers that can require PacifiCorp to build new lines, PacifiCorp does not have those same planning and construction requirements under the contract. Consequently, it is not appropriate to impute revenue or price the WAPA service at the tariff level.

Q. In what other ways is the WAPA contract different than a tariff agreement?

A. Existing wheeling tariff customers can leave the PacifiCorp system anytime or they can remarket the rights acquired from PacifiCorp. In contrast, WAPA committed to pay for 80 years of wheeling, even though they knew the book value of the assets will be fully depreciated in about 50 years. Even though the revenue requirement will diminish to a negligible amount in the latter years, they cannot walk away.

Q. Do you agree with the implication that the WAPA wheeling contract was imprudent?

A. No. As previously explained, the contract provides benefits to customers. In 1962, WAPA signed wheeling contracts with nine transmission owners, including Utah Power. Each of those contracts was priced essentially the same even though they represented nine different negotiations. For example, both Utah Power and CP National Corporation provided wheeling to WAPA in Utah at the identical price. An observation to draw here is that both of these companies agreed on similar pricing. Second, as previously discussed, the WAPA contract reflected transmission services as they were typically provided in 1962 and was priced in accordance with the restrictions on WAPA's use of this contract. These restrictions, together with the price, resulted in a prudent determination to sell transmission service.

Also, Mr. Binz claims that as the contract does not have explicit price escalators the contract is imprudent. In fact, not all commercial contracts have price escalators. Today it is not unusual for a contract to be levelized over the contract period. These levelized contracts are characterized by constant price, based on the assumption that total revenues are adequate even though related costs in a given period may be higher or lower than revenue. Regulators have ordered or approved levelized pricing for certain Qualifying Facility (QF) contracts. Levelized contracts are not categorically imprudent. Over the contract life a reasonable margin is earned.

The utility and other borrowers commonly issue bonds at fixed rates of interest for very long periods of time with no “price escalation.” This type of fixed price contract is considered prudent and normal in the marketplace. Yet, when low coupon bonds are issued and interest rates subsequently increase the Company has not suggested it should be permitted to impute interest expense at the prevailing market rate.

Without considering the full value a levelized contract provides, adjustments like the proposals of Mr. Binz, Mr. Croxford, and Mr. Schultz, based on a snapshot view of contract value, are inequitable.

A few more facts are important to note regarding price escalation in relation to transmission revenue requirement. Transmission revenue requirement does not escalate rapidly over time. In fact it declines as the assets are depreciated. The vast majority of transmission revenue requirement is attributed to depreciation and return on the initial transmission plant. This portion of revenue requirement is basically fixed in the early years then declines until the asset is fully depreciated. The variable costs, operating and maintenance expense, typically represent less than 10 percent of transmission revenue requirement.

Q. Do retail customers somehow subsidize the non-tariff WAPA contract and does revenue imputation resolve the supposed subsidy?

A. No. As explained above, the revenue from WAPA exceeds the cost of service. Also, this Commission has routinely approved contracts between the utility and large customers at non-tariff prices. This practice acknowledges that non-tariff prices can provide benefits to the system by contributing to fixed costs. For example, non-tariff contracts with large industrial customers, such as Kennecott, have been executed over the last decade and more. Even though the market price of energy or tariff price of energy might have changed after the contract was executed, no one suggested revenue imputation on those contracts.

Q. Should revenue be imputed for this 42-year old contract at the FERC tariff rate for firm transmission across the entire PacifiCorp system?

A. No, not in this situation. Revenue imputation, as proposed by AARP, CCS, and the DPU, has implicit assumptions that are not valid. The adjustments implicitly assume the service options in the WAPA contract are comparable to tariff service, which is not the case. Consequently, pricing should not be compared to tariff. No utility regulator took exception to the contract during the first 20 years, even though the contract has always been below tariff. Just as it is inappropriate to impute an adjustment related to long term fixed price contracts like bond issuances with fixed interest rates, it is inappropriate to adopt the adjustments of Mr. Croxford, Mr. Binz, and Mr Schultz.

Today, the industry is struggling with transmission pricing. Some parties argue for the "postage stamp" approach which has been common in recent years, while others advocate variations that reflect the cost and value a wheeling customer receives. Transmission pricing has changed over the years and I expect it will continue to change. Attempts to convert a legacy contract, like WAPA, to a prevailing price format has inherent flaws.

Q. Is an adjustment appropriate?

A. No. Although the best method to adjust for WAPA wheeling is to remove from revenue requirement all aspects of the contract, the fact is no adjustment is necessary, as retail customers do not currently subsidize WAPA.

Q. Are the calculations of imputed revenue in DPU Exhibit 5.2, CCS Exhibit 2.7 and AARP Exhibit___ (RJB-3) the same?

A. No. Although all three adjustments purport to calculate the same thing, in fact, the AARP exhibit is materially different. AARP's calculation is based on a historical five-year average (FY00 - FY04) that demonstrates a decline in imputed revenue through FY04. Mr. Binz suggests $2,061,011 of Utah revenue imputation. In contrast, the DPU proposes to adjust Utah revenue by $1,847,502 based on twelve months of data through June 2004. The CCS proposes to adjust

Utah revenue by $1,880,771, based on twelve months of data through June 2004 allocated on the System Generation factor. The five-year historical averaging by Mr. Binz is not appropriately matched with the test period in this rate case and should be rejected relative to Mr. Croxford's or Mr. Schultz's more current calculation.

Q. If the Utah Commission feels an adjustment is appropriate, how should it be structured?

A. Exhibit UP&L___ (CPJ-1R) provides the Utah allocated amounts for such an adjustment. It removes $1,178,279 of WAPA revenue. As the WAPA wheel represents about 10 percent of the firm wheeling in the Utah control area, the adjustment also removes 10 percent ($80,433) of transmission operating & maintenance expense related to the Utah control area and 10 percent ($169,802) of depreciation expense. Rate base amounting to $4,607,062, related to 10 percent of the transmission line plant in Utah, is also removed. The net impact is approximately a $370,000 increase in revenue requirement, as revenue from the contract exceeds the related cost.

Q. Does this conclude your testimony?

A. Yes.