Q. Are you the same Darrell T. Gerrard who previously filed direct testimony in this proceeding?

A. Yes, I am.

Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. I will rebut certain, claims, accusations, misinformed concepts or opinions and some specific adjustments proposed by CCS witnesses Donna DeRonne and Helmuth Schultz, UAE witness Dr. Richard Anderson, UIEC witness Michael Gorman, DPU witnesses Bruce Scott Moio and Bart S. Croxford, and AARP witness Ronald J. Binz. Specifically I will respond to:

- Proposals made by Ms. DeRonne, Mr. Moio and Mr. Gorman that the Company's proposed capital additions be reduced;
- Proposals made by Mr. Croxford, Mr. Binz, Mr. Anderson and Mr. Schultz regarding reductions in the Company's proposed workforce costs;
- Ms. DeRonne's proposed adjustments based on the budget management initiatives the Company has executed during the current fiscal year (FY 2005);
- Mr Binz's proposed workforce spending reductions based on his productivity and efficiency claims.

Q. Will you please discuss your overall response to the parties' proposals to disallow substantial portions of the Company's investment budget from recovery in this proceeding?

A. Yes. I find these conclusions and recommendations incredibly shortsighted and unjustified. PacifiCorp is facing a major build cycle across its Utah service territory and across all its functions as an integrated electric utility which is dedicated to providing safe, reliable, economic service to its regulated retail customers. Further, intervenors have totally over looked the fact, that PacifiCorp has been increasing investment in the state and will do so again in 2006. The state of Utah is the highest growth state in PacifiCorp's entire service area by far. We are connecting more than 16,000 new customers per year, which, by example, is representative of adding an entire community the size of American Fork City or St. George to our system every year. In addition to this significant load growth, customer demands and expectations for customer service and for reliability of supply are increasing.

In my expert opinion, if one was to translate the impacts of the revenue decreases and investment disallowances proposed by the intervenors onto the operations side of our electric delivery system, customer service levels will decline and system reliability will deteriorate significantly over time. In fact, I and other utility experts would consider the proposed reductions, as imprudent and even reckless in light of PacifiCorp's obligation to serve. By just one example, for CCS to suggest disallowances of more than $19 million and Mr. Moio to suggest disallowances of more than $40 million of transmission and distribution (T&D) system capital investments alone, all based on the misconception that they are not approved or justified, is incorrect. This constitutes a significant portion of Power Delivery's additions to plant in service for the year in the state.

In addition, the recent review of PacifiCorp's investment plans by utility experts at Williams Consulting Inc. (WCI) confirmed our plan for continued investment in our infrastructure. WCI also recommended an increase in maintenance and indicated a need for additional human resources to deliver our plans.

The conclusions reached by intervenors in this case are in clear conflict with the facts and conclusions of experts, both internal and external to PacifiCorp. Other witnesses address in detail investments in parts of the Company other than the transmission and distribution functions, for which I am responsible, but over all it is critical that the Company receive adequate revenue across all functions to allow it to make needed investments.

Q Please explain your role and responsibilities in developing the plans for Power Delivery that are the basis for the submittal in this rate case.

A. I would be happy to as I think there is considerable misunderstanding among the intervenors regarding our business planning, budgeting and approval processes and how they affect this case. First, for clarification, Power Delivery is a business unit of PacifiCorp and has overall responsibility for the transmission and distribution system that moves electricity from our generation supply stations to our customers' homes and businesses. It has responsibility for field operations and our customer care centers that provide essential day to day services to those customers.

It is my responsibility to provide the capital investment and maintenance plans for Power Delivery, justify those plans and recommend them to PacifiCorp senior management as part of our business planning and budgeting cycle. These plans must contain a longer range 10 year perspective for business planning, and a shorter range, 2 year perspective, for budgeting purposes, as required for a large infrastructure business like ours. These plans are justified, prioritized and sized into a budget to meet a host of mandated requirements including load growth, reliability, obligations to serve, operations and maintenance criteria, both state and federal safety codes and statues, contract obligations and FERC orders just to name a few important criteria. In addition, these plans must meet our continued commitment to deliver prescribed levels of customer service and to improve and sustain reliability levels as needed. Upon approval of these plans and budgets it is my job, in cooperation with my counterparts in Field Operations and Customer Service, to deliver the plans on time and within the budget approved. As shown in this testimony and in my direct testimony (Exhibit UP&L___ (DTG-4) and Exhibit UP&L___ (DTG-5)), Power Delivery has repeatedly delivered its work plan and Operations and Maintenance budget.

The plans submitted for this rate case are justified and necessary and do meet the ongoing requirements and commitments above. As stated in Exhibit UP&L___ (DTG-2) of my direct testimony, the Operations and Maintenance plans are some $22 million dollars above 2004 levels and are reflective of essential maintenance and operations activities directly targeted at serving customers in this state. The plans are not overstated or gold plated but represent an ongoing level of investment that will be needed to improve our operational performance. I have personally pledged, in meetings with DPU staff and stakeholders, PacifiCorp's commitment to improve performance in the state and have agreed to meet periodically with selected DPU staff members to discuss our progress on the spending requested and delivery of our work plans. A favorable ruling by the Commission, and the granting of the revenue requirement increase requested in this case, is essential for us to meet those obligations and commitments.

Unjustified Reductions To Capital Additions

Q. Will you please discuss the intervenor's specific proposals for the disallowance of proposed transmission and distribution capital additions?

A. Certainly. Mr. Moio, Mr. Gorman and Ms. DeRonne recommend overall reductions to transmission and distribution capital additions planned by PacifiCorp's Power Delivery Business Unit on the basis that there were no approvals obtained for these planned expenditures. As stated in Mr. Furman's rebuttal testimony, PacifiCorp's overall plan, which includes Power Delivery's business plan containing planned capital expenditures, was reviewed and approved after thorough review per the Company's governance policies.

Power Delivery's Business Plan contains a 10 year plan of capital expenditures required to construct, maintain and operate a safe and reliable transmission and distribution system. The first two years of the plan are used to develop a two year budget and operating plan. The resulting two year Budget and Operating Plan, for all business units across the Company, were reviewed and approved by business unit management, PacifiCorp management, the PacifiCorp Board and acknowledged by the Scottish Power Board as of March 2004.

Therefore, capital additions submitted in this proceeding should not be disallowed based on the claim by intervenors that proper approvals were not received. PacifiCorp, including the Power Delivery Business Unit, correctly followed governance policies and its plans and budgets were appropriately approved. It is recommended that the Commission reject the intervenors' recommendations that would significantly reduce PacifiCorp's capital investments.

Q. In her testimony, Ms. DeRonne recommends that eight transmission and distribution capital projects (CCS 1.7 page 2 of 2), totaling more than $19 million, should not be included in rate base because the projects did not have PacifiCorp Investment Committee (PIC) approvals, or they were not adequately supported. Should the Commission adopt this recommendation to disallow these projects?

A. Absolutely not. As stated earlier in my testimony, in pursuing these projects, the Company followed its governance policies and received approval of its business plan, which included these eight capital projects. There is no cause to disallow these projects given the Company followed, and continues to follow, its governance policies.

Understanding the Company's review and approval policies is important to understanding how forecasted spending in FY2006 is managed and controlled. Since the filing of the Company's direct testimony, and as provided through responses to subsequent data requests, changes have occurred to several of the eight projects Ms. DeRonne recommends for disallowance (Exhibit UP&L___ (DTG-1R)).

It is an absolute necessity to allow for changes in PacifiCorp's expenditure plans during a budget cycle and this was anticipated as the governance policies were developed. The Company, including Power Delivery, operates within its approved budget given policies which allow for necessary changes given new facts, circumstances and developments. To be rigid and not allow for the recommendation and approval of budget changes would not use company resources to achieve the highest possible benefit for our customers and would ignore the fact that the Company operates in a dynamic environment that requires proactive management. Exhibit UP&L___ (DTG–1R), containing the eight projects noted by Ms. DeRonne, highlights this concept and shows projects being delayed, deferred, advanced, deleted or added. Simply removing costs of projects that are being replaced by higher priority projects ignores the fact that the same level of costs will be incurred on behalf of customers.

Finally, in addition to the fact that the Company followed its governance policies, the funds for these projects should be included in rate base because Power Delivery must meet increasing customer needs and it must do so through its available budgeted resources. The commission should not support the disallowance of $19 million dollars of capital projects as proposed by Ms. DeRonne.

Q. Ms. DeRonne states PacifiCorp is considerably under budget in its projected capital expenditures for FY 2005 year-to-date. Do you concur with her conclusion (pg. 11. line 6) that this will translate to lower levels of plant additions in 2006 test year?

A. I do not. First, Ms. DeRonne appears to be confusing the impact between the rate of capital spending for FY 2005 and the actual anticipated impact of plant coming into service during FY 2006. Clearly, plant in service is not just impacted by the run rate of capital expenditure during FY 2005. In addition, while it is true that some transmission and distribution investment is under budget at this time in FY 2005, a simplistic mid-year view of FY 2005 spending does not indicate a reduction in planned FY 2006 test year plant in service additions. The Company has historically been close to its approved budget. Exhibit UP&L___ (DTG–2R) shows historically Power Delivery's actual spending to budget at mid year (six months ended September 30th) and illustrates the fact that a variance in FY 2005 is neither unusual nor unexpected. The amounts of the current under spend in Power Delivery are primarily related to three primary areas:

1) Transmission expenditures related to Integrated Resource Plans (IRP) of which only one project had planned to be in-service in the test year (Bend Area Wind).

2) Expenditures driven by third parties (Customer Driven Category) of which none were submitted as plant in service in the test year.

3) New Distribution Substations that are delayed from calendar year 2004 into calendar year 2005 or early 2006 due to siting and permitting issues.

These items may affect capital expenditure cash flow but they do not materially impact the addition to plant in service, and thus, rate base and the commission should not conclude that our capital spend profile will materially impact plant in service for the test period.

Q. What has PacifiCorp's past track record shown regarding its ability to execute and deliver its capital plans? What about Power Delivery's ability in particular?

A. In regard to PacifiCorp's ability to deliver its capital plan, we have a good track record. I would point out that in FY 2003 PacifiCorp delivered its capital expenditure of $537M on a planned budget of $540M which is within 1 percent. In the same year Power Delivery, whose transmission and distribution investment constituted nearly 60 percent of PacifiCorp's capital requirement, delivered 104 percent of its capital plan at $314M on a budget of $310M.

Further, in FY 2004 PacifiCorp delivered its capital of $680M on a planned budget of $659M which is within 3 percent. In that same year Power Delivery, was nearly 58 percent of PacifiCorp's capital requirement and delivered 109 percent its capital plan of $379M on a planned budget of $369M. This track record demonstrates that, contrary to Ms. DeRonne's contention, the Company and the Power Delivery Business Unit, are more than capable of meeting capital expenditure plans**.**

Q. Are Power Delivery's planned capital expenditures proposed in this case overstated or inflated for the FY 05 and 06-test period, as claimed by Mr. Moio in his testimony?

A. No. This is simply not the case. As I have previously explained, budgets are based on a range of projects at various levels of development maturity. Just because each project plan is not developed to the same level of detail does not mean that projects are not essential or that they will not be delivered or the associated dollars not spent. Mr Moio considered only 5 months (April thru August) of capital information and for only one year (2004), he cherry picks the data and draws incorrect conclusions that PacifiCorp overstates its entire company budget by 13 percent and recommends that PacifiCorp needs to spend nearly $100 million dollars less in Utah to serve it customers. If Mr. Moio were to have taken the historical track record that I highlighted above into account, it would have been clear to him that his adjustment had no merit.

The capital expenditures that Power Delivery included in the test year are at the appropriate level of spending necessary to meet our obligations to serve in the state and to help meet our responsibilities to the Commission and to our customers to improve reliability. These expenditures are essential in maintaining a safe and reliable electrical infrastructure. The Commission should reject Mr. Moio's proposed adjustment to reduce spending by nearly $100 million dollars in Utah; it is without merit.

Q. Mr. Moio refers to PacifiCorp's use of "block estimating," to conclude that Power Delivery's transmission and distribution capital expenditures, in total, are inflated and overstated. Are his conclusions accurate and his proposed adjustment justified?

A. No, it is not justified.

First, our transmission and distribution capital expenditures, such as those submitted in this case, are not overstated.

Second the use of block estimating practices and techniques is accepted industry-wide and is consistent with prudent utility practice.

Third, there will always be variances between actual project costs and budget over the project life cycle. This variance is particularly true when analysis is conducted on an individual project by project basis. However, the larger picture must be reviewed to draw accurate conclusions. I offer the following in support of the above statements.

In the estimating field, classifications of the type of estimate being performed are common with either a stated or inferred accuracy specifically dependent on the amount of information available at the time the estimate is performed. For industries and companies involved with design and build activities, a large percentage of estimates are initially done at the conceptual or feasibility stage of a project and are specifically intended to select the most viable option and provide funding or approval to continue with the ensuing engineering, procurement and construction. Although the accuracy range at this stage may be wider than at later stages of project development, estimating at this point is absolutely critical to cost-effectively pursue the most beneficial projects for our customers. Please see my supporting Exhibit UP&L___ (DTG–3R) which is our internal control document "PacifiCorp Power Delivery Estimating Classification for Engineered Capital Projects", dated August 2004.

Although the wording classifications and descriptions in Exhibit UP&L___ (DTG–3R) are somewhat unique to PacifiCorp, the use of preliminary estimates is a common industry practice, as noted in "Association for the Advancement of Cost Engineering International (AACEI) Recommended Practice No. 18R-97," dated 2003, and "Recommended Practice (Draft): Cost Estimate Classification System - As Applied in Engineering, Procurement, and Construction for the Process Industries, Cost Engineering" Revised March 3, 1997. These documents are provided as Exhibit UP&L___ (DTG–4R).

PacifiCorp is prudent in its use of block estimating for planned expenditures and is following industry best practices and, as such, our estimates and resulting budgets are not inflated or over stated as claimed.

Q. Having established the industry standard for the classification and use of such preliminary estimates, will you now please address cost variances and Mr Moio's conclusions that the variances are always overstatements of costs and never understated?

A. Yes. PacifiCorp has many projects of various sizes and costs as I stated earlier. Our practice is to have the average variance, or most probable variance, be statistically symmetrical about the zero variance axis. This is a more aggressive approach than prescribed by the (AACEI) and is more appropriate when preparing a budget comprised of numerous projects. In application, although individual projects tend to have more variance explanations, the overall program or budget, comprised of all projects taken together, proves to be more accurate. These relationships have been regularly verified as shown in a comparison to actual performance of PacifiCorp's original Block Estimate versus Actual Cost for recently constructed Utah Projects. Exhibit UP&L___ (DTG–5R) shows that the total actual cost for 193 projects completed in Utah during 2004 overran the total budgeted amount by 5 percent. Contrary to Mr Moio's conclusion, when a large number of disparate project are considered together, estimates for expenditures are slightly understated not overstated, as he concluded.

It is important to note that the accuracy of the "block" estimates, in relationship to final project costs, can only be measured once the individual project's costs are fully known; that is, when the project is completed. In reference to Mr. Moio's comparison of only projects over $100,000 and those over $1 million, he states a corresponding variance of 19 percent and 29 percent respectively. Although I have not been able to determine his specific sample, I question whether these are absolute variances, total variances, or average variances. I want to point out that taking a smaller project sample, and then a smaller sample again, it would statistically discredit Mr. Moio's point that a blanket reduction of all expenditures is justified. Projects planned, budgeted and constructed in Utah are of all sizes. A sample of large or small projects does not represent all projects. In fact, when I used the same selection criteria as Mr Moio, that is, projects over $100,000 and projects over $1,000,000, and apply it to the 193 Utah projects referenced above, there are total <u>over budget</u> variances of 5.2 percent for projects over $100,000 (see Exhibit UP&L___ (DTG–6R)) and of 6 percent for projects over $1 million (see Exhibit UP&L___ (DTG-7R)). This shows that our project estimates are more likely to understate our completed project costs rather than over state them and indicates that our actual request is conservative. The Commission should reject Mr Moio's proposal that PacifiCorp needs $100 million dollars less in Utah to serve its customers; it is without merit.

Q. Let's turn now to the proposed disallowance of capital expenditures that are explicitly designed to meet the growth requirements of the state of Utah. Would you please explain why a number of projects were eliminated from the Quantum Leap "official project list", while the associated dollars remained in the budget, as claimed by Mr. Moio?

A. Certainly. Capital dollars remained in the budget to meet the objectives of the Quantum Leap initiative, even though individual projects within the initiative did change. Such change must be expected given the large number of component projects identified in such a comprehensive initiative as Quantum Leap.

For example, a key Quantum Leap objective is to provide an additional 900MVA of capacity in the Wasatch Front within the authorized funding level of $202 million that was approved through the governance polices and by the approval bodies of the Company. Initially, a list of projects was developed to deliver the overall program objectives. As should be expected, adjustments to this list have been made over time (both additions and deletions) based on an evolving assessments of benefits each expenditure would deliver as new information was obtained. This is not unusual considering the dynamic nature of the system that the Company operates. As component projects were placed in service, reviews of the changing growth patterns, load data and overall system asset performance were conducted. These reviews identified alternate projects that would provide greater benefit than several of those initially identified. A couple of examples would be our South Mountain, Jordan Park and Gordon Avenue Substations, where the original projects were redesigned and the capacity was significantly increased based on emerging information on area load growth.

Q. What were the major causes for some of the changes in the Quantum Leap project list as claimed by Mr. Moio?

A. Changes in the Quantum Leap project list were caused primarily by permitting, site selection, temporary facilities and landscaping issues, and changes in load growth patterns.

Q: Is the Quantum Leap project delivering its intended benefits?

A: Yes. As of November 31, 2004, the program has successfully delivered an additional 1217MVA of capacity. At completion, the total capacity to be delivered by Quantum Leap is currently estimated at 1670MVA and is currently forecasted to be delivered within the authorized program funding.

Q. Do you agree with claims by Mr. Moio that the Quantum Leap Project contained "many inefficiencies" (Page 6 line 1-2) related to the process used for determining capital expenditures?

A. No. I certainly do not agree there were "many inefficiencies". The project is a very successful one and further illustrates that PacifiCorp can deliver its capital plans and do so to a budget target. Mr. Moio clearly does not understand what is necessary to execute large scale infrastructure projects nor does he understand our Company and its processes and controls.

This was a large scale program where it was imperative to customer service and safety that a number of the key component projects be completed within a compressed time frame. In order to initiate the program to deliver immediate benefits, the process for scope definition, cost estimating and project approvals was performed at a high level. Our Internal Audit department provided valuable support in identifying areas for improvement through an audit. They then followed up with a second audit in October, 2004 that noted the improvements.

Conceptual plans were critical for PacifiCorp to commit to acquire long lead time equipment that can take as long as 18 months to source. This approach resulted in some need to subsequently re-scope, re-engineer, re-evaluate and re-approve a number of component project schedules and estimates as more detailed information was developed. These requirements cannot reasonably be characterized as significant inefficiencies despite Mr. Moio's attempt to do so. It is noteworthy that, as the Quantum Leap program matured, the time allotted for scope definition, cost estimating and approval was expanded and less re-work is now being required.

The Quantum Leap Project is a great success story and a very important initiative for PacifiCorp and for the customers and communities of Utah. The project was initiated due to PacifiCorp's commitment to maintain its ability to provide safe, reliable and economic service even as load continued its rapid growth along the Wasatch Front.

Q. Mr Moio refers to the potential for "over billing and resulting inflated costs" on the Quantum Leap project. What is this "potential" for costs being higher than anticipated?

A. PacifiCorp regularly reviews all contractor invoices to assure that charges are accurate based on contract requirements and work performed. However, due to the large volume and complexity of the Quantum Leap invoices, the invoice review process required additional support. Subsequent to the internal audit (P04/25, dated March 2004) the Quantum Leap program acquired additional staff to support the invoice review and reconciliation effort. New processes were also established to identify and resolve invoice discrepancies or concerns to assure accurate billings for work performed. Based on the findings of a subsequent Internal Re-Audit report (P05/16, dated October 2004) the new processes to review and reconcile invoices were deemed adequate. No information has been found to support that "over billing" has occurred.

Q. Mr. Moio refers to the Quantum Leap project audits and says "the potential of over-billing likely means the capital additions amount is overstated in this rate case." (Page 6, line 21-22) Is he accurate in his portrayal of the Company's billing controls and its impact on estimates?

A. No. He is not accurate and his conclusion that estimates are overstated, based upon "potential over-billing", should be disregarded.

First, Mr. Moio attempts to use this project, out of hundreds over the years, to say that this is an example of poor controls in the Company. Rather, this project highlights PacifiCorp's commitment to continuous improvement even when strenuously challenged to deliver unusually large, high priority, and short deadline projects.

It is an important point to note, one which Mr. Moio either overlooked or ignored, that the two Quantum Leap internal audits that he refers to in his testimony were initiated by the Company to review and improve our processes and controls around the Quantum Leap project. As we expected from our continuous improvement practices, the second audit noted a marked improvement.

Mr. Moio's conclusions, developed from misconceptions and either overlooked or ignored facts, should be disregarded.

Q. Would you please explain the additional work force submitted in the rate case for Power Delivery? It shows a significant increase from 2004 levels to 2006. What are the drivers behind these proposed increases?

A. Certainly. Briefly, Power Delivery is increasing its workforce given Utah growth and as our plans for increased inspections, maintenance, vegetation management and other activities step up. Workforce increases are easily seen as you compare FY 2004 to FY 2006, however, there are important factors to consider before any conclusions can be drawn; factors which I discuss further in my testimony.

There are a number of drivers behind the increases in work force that Power Delivery requires in order to serve our customers and to manage our assets in Utah. Let me discuss some of the most important ones.

The most significant driver is growth impacting our electric transmission and distribution system across the state and the sheer number of customers we are adding to the system each year which need to be serviced. As stated previously in my direct testimony, PacifiCorp is adding in excess of 16,000 new customers a year to a large service area. Another major driver is the marked increase in our operations and maintenance programs and our need for improved performance of our electric system. For example our distribution maintenance program in Utah continues to increase and by 2006 expenditure will be nearly 29 percent over 2004 levels. These changes reflect increased frequency of system inspections, follow up with necessary corrective maintenance and increased preventative maintenance for major equipment and apparatus to prevent failures and improve reliability. Our maintenance plans for our transmission system are also increasing. Our capital investment is planned to increase 18 percent over 2004 levels in order to meet load growth and to improve system reliability for the long term. The conclusions and recommendations from the Williams Consulting Report and PacifiCorp's December 2003 Storm Report clearly support the need for these ongoing investments and the workforce necessary to sustain them.

Q. You have explained how customer growth and increased maintenance are driving the need for increased workforce, are there other drivers?

A. Yes, there are. Power Delivery requires staffing additions to support changes in our current business practices targeted at improving operational excellence, outage response, safety, and gaining efficiencies by reducing work performed on overtime.

All of these efforts are aimed directly at serving customers. A couple of examples are the staffing required for a new Program called 21st Century Operations, an initiative needed to improve reliability and operational performance of our System and Field Operations groups. There is also the deployment of a new Energy Management System (EMS) and Supervisory Control and Data Acquisition (SCADA) system. This system will require additional staffing to support daily operations and to deliver full capabilities of this new technology.

Another driver is that PacifiCorp has looked at the age demographics and profile of its existing workforce and it is clear that a significant number of employees, both craft and professional, will be retiring from the workforce in the next several years. These employees will take with them critical skills necessary for our company to accomplish our day to day business. Power Delivery must be prepared to address this skill deficiency and we are taking proactive steps to sustain a workforce required to serve our customers. By example, as part of Power Delivery's plan we have stepped up our commitment to our apprenticeship programs in several craft skill areas and by the end of 2005 we will employ 130 more apprentices, working in various craft trades, than we employed in 2004. PacifiCorp, not unlike other utilities, has found that we cannot rely on the industry in the future to provide a pool of experienced workers for electric utilities.

Additional staffing is required for us to continue to meet our commitment to customer service including Customer Service Guarantees and Performance Standards which we plan to continue for the next three years. Our expanding customer base requires more employees to maintain service levels and keep these commitments as customers expect us to do. Overall, our ability to respond to meet increasing customer demands and requests and our ability to respond during storm conditions will also be improved.

Q. Mr. Croxford of the DPU recommends an adjustment of $11,615,202 in account 930 for an overstatement in labor. Did the Company overstate labor costs in the case?

A. No. The Company did not overstate labor costs in the case. Mr. Croxford comes to his conclusion and recommendation by focusing upon only one component of our workforce spending, that being full-time employees. Mr. Croxford's approach is incomplete as it does not accurately represent PacifiCorp's workforce spending since he ignores the cost of other workforce components such as contract crews. He also appears to ignore the fact that PacifiCorp has committed to some very clear action plans whose outputs can only be completed through the use of increased resources. It is also my understanding that the DPU supports the delivery of these plans which need more labor to deliver them.

Q. Please explain further why Mr. Croxford's approach is in error and how Power Delivery prepares a resource plan?

A. Each year Power Delivery prepares its budget based on the work planned for the year. This work is performed by both contract and by company employees. The mix is complex and the resource level is determined by the capital and maintenance work plan plus several other important factors including availability of crews, seasonal work, project schedules, specialized work requirements and requirements for professional services. Power Delivery utilizes hiring hall workers, contractors and contract crews, as well as our own employees, to accomplish our work plan. Contract crews do not appear in the company's system of employee records but are resources available to be used by the

Company. Thus, Mr. Croxford's approach is missing important components.

Q. Mr. Croxford, Ms. DeRonne and Mr. Schultz all cite justification for expense reductions due to headcount and employee variance to plan or budget. Explain why this is not reasonable or justified for Power Delivery.

A. As I stated previously, Power Delivery uses a combination of employees, contractors and construction services contracts to balance resources to work plans. Where we might under spend on internal labor we must supplement with contract spending as the customer service, capital and maintenance work plans must be completed. As the cost of internal labor or contract labor is broadly the same, it can be expected that the cost of delivering key outputs will be the same whether the work is delivered by internal or external labor.

An example is the Company's spending on OMAG (Operations, Maintenance, Administrative and General) expense work. As shown in Exhibit UP&L___ (DTG–8R) Power Delivery had more actual internal employees than budgeted in FY02 and FY03, however, the actual OMAG expense was consistent with the budget and our work plan was delivered. In contrast, for FY04 and FY05, year-to-date November, Power Delivery is under budget in actual internal employees; however, again the actual OMAG is consistent with the budget and our work plans were delivered.

These results are primarily due to the utilization of contractors and contract services to perform the work needed to meet our work plan. Mr. Croxford has drawn an inaccurate and incorrect conclusion about our source of actual and future costs that are incurred as we serve our customers. There is not a direct correlation between headcount variances and the amount of forecasted cost incurred or work performed during the year. Therefore, the $11,615,202 adjustment suggested by Mr. Croxford, the $6,200,518 adjustment suggested by Mr. Schultz, and Ms. DeRonne's unspecified adjustment should be rejected.

Q. Why are these crews not shown in the Company's personnel records?

A. Contractor crews are not in our personnel records because we hire the services of the contracting companies and they provide their own crews to complete our work. They pay the workers' wages, payroll taxes, pension costs and various other benefits. The cost to complete our work requirements comes to PacifiCorp as contract services and is charged to contract services as either expense or capital, depending upon the nature of the work.

Q. Do you have any additional comments on Mr. Croxford's testimony?

A. Yes. Mr. Croxford's accounting treatment for his adjustment would overstate the impact on the revenue requirement. That is, his recommended labor adjustment to account 930, as shown in his exhibit DPU Exhibit No.5.4 is in error. He incorrectly places his adjustment in only expense account 930, even though work performed by our employees would be a mix of capital and expense work.

Q. UAE witness Anderson notes the increases in employees from year-end FY04 to year-end FY05 and then to year-end FY06. He states, on page 36, lines 16-17, of his testimony that "The Company's testimony does not explain the reasons for the large jump in employees in FY05". What is your response?

A. I do not agree with Mr. Anderson. In my direct testimony, regarding Power

Delivery, I provided reasons, or drivers. (See Gerrard Direct Testimony page 3 lines 13–23, page 4 lines 1-6 and lines 18-23, page 6 lines 11-23, page 7 lines 1-7.) Growth in customer counts and the step-up in inspection and maintenance cycles are a few examples.

Additionally, I have just explained in my testimony that employee increases are planned, but we will use other non-employee workforce components, if need be, to meet our operational objectives, all while working within our budget. Mr. Anderson did not take into account any of these considerations in his conclusions. His call for an adjustment should be rejected by the Commission.

Q. On pages 21 through 25 Mr. Binz proposed an adjustment of $20.7 million based on what he characterizes as a labor productivity improvement argument. Do you agree with his adjustment or the basis upon which he proposed?

A. No, I do not, as salary cost per MWh is not a measure of productivity. In his testimony, Mr. Binz does not mention that Power Delivery already has substantial productivity increases included in its business plan. Power Delivery has included efficiencies and cost savings of $11.5 million in its business plans through FY 06, with $5.6 million coming from the Distribution business and $5.9 million from Customer Service**.**

Mr. Binz fails to produce any evidence that PacifiCorp's productivity increase in FY 05 and FY 06 should offset increases in its labor cost. Labor costs are driven by many factors. These include: 1) The amount of work required to be done, 2) Increases in pension and other benefit costs which can be driven by external factors such as changes in investment returns or interest rates, and 3) The mix of work done by company employees versus outside contractors

One reason why the labor cost per MWh is increasing is because Power Delivery plans to do an increased level of work beginning in FY 06. PacifiCorp is changing many of its maintenance cycles in order to provide better, more reliable customer service. It is not unexpected that this change would cause the labor cost per MWh to increase.

Mr. Binz also fails to take into account that work can be done by resources other than employees. Over the last few years, Power Delivery has been replacing outside contractors with employees. All else being equal, this change would have the impact of increasing labor cost but decreasing contracts and services. The use of labor cost alone as a measure is flawed because it does not take into account this substitution of resources.

Q. Ms. DeRonne made several conclusions regarding the role of the Company's efficiency initiatives / budget levers in setting the Company's rates in this case. Her basic conclusion is that FY 2006 costs should be lower given the initiatives. Do you agree that the efficiency initiatives/budget levers will result in Power Delivery having lower costs than those projected in the business plan and included in the rate case?

A. Absolutely not. I do not agree with her conclusions. What we are doing in FY 2005 will not cause actual costs in FY 2006 to be lower than in the rate case filing.

Q. Why not?

A. The use of the efficiency initiatives is simply proactive management to ensure that unexpected cost pressures in the business do not limit our ability to deliver our key expenditure plans for the benefit of our customers. These efficiency initiatives / budget levers are not intended to push PacifiCorp's performance above the levels included in the FY 05 budget and business plan.

The purpose of the efficiency initiatives is to attempt to move closer to achieving our FY 2005 plans, without negatively impacting service to our customers during the year. For example, in my part of the Company, Power Delivery, we have run into cost increases that were not expected when the original budget was set and which are causing us to fall short of our business plan expenditure goals. The most significant of these is the operations cost within our Transmission and Distribution Operations group which has seen costs significantly higher than those included in the budget. For year to date, April through November 2004, these costs are about $6.3 million higher than assumed in both the budget and the business plan. The overrun is due to increased numbers of underground and overhead line faults and an increased number of requests for underground line locates from external parties to prevent outages from dig ins. There is no reason to believe that these costs will not carry over into FY 2006. Due to these unexpected cost pressures on the budget, we needed to find additional savings in FY 05 and to continue some of those savings in FY 06 in order to ensure that our overall budget would allow us to perform the key activities that we had planned to deliver.

Q. Are there other transmission and distribution costs which have, in reality, needed to exceed their budget/business plan levels?

A. Yes. Let me provide an example. At the time the business plan was prepared, we had a plan to solicit bids for future vegetation management work and to drive the cost down through a competitive bidding process. It was assumed that the lower prices would reduce costs by about $1 million per year. We executed the plan and received several bids. Contrary to expectations however, the bids we received were all higher than the prior contract rate so costs have actually increased slightly instead of decreasing. The new assumption for the FY 06 budget is approximately $1.4 million higher than was included in the business plan.

Q. What impacts do these cost pressures have on the ability of Power Delivery to meet its FY 2006 budget?

A. Essentially, these cost increase impacts have the opposite impact from that which Ms. DeRonne infers. While Ms. DeRonne suggests that these efficiencies will somehow reduce planned expenditure, this is not the case. Ms. DeRonne has missed the point that the efficiencies were designed to mitigate cost pressures on the business. This is evidenced by the fact that the overall FY 2005 budgets are being managed to planned levels.

There is an irony to this from two perspectives. First, this process is about managing our planned expenditures to budget, something that many unjustified adjustments suggest we will not do. Second, these rising cost pressures actually mean that our FY 2006 budgets are understated not overstated. In short, we are working to manage planned outputs that now have some unexpected cost pressures. Initially, our new FY 06 budget was approximately $9 million higher than included in business plan for FY 06. As part of the management of the business we then went through an extensive process of reviewing all budgeted costs and were able to identify about $9 million of cost reductions to get back to our original business plan targets. Part of the $9 million of cost reductions is attributable to a continuation of some of the stringent cost controls which were put in place in FY 05.

Q. You have emphasized throughout your testimony that the Company needs to make, and in fact has made, capital and maintenance investments. How could the Company carry out those expenditures with the revenues proposed by the parties?

A. It would be extremely difficult, if not impossible, to meet our service obligations and customer commitments in the state. As Mr. Furman states, it is simply not possible to do more with less, especially when the scale of our investment and operational plans are considered.

I urge the commission to consider carefully the strong track record that this business has of successfully managing large complex plans to budget and to reject these unwarranted adjustments. While the various witnesses may be proposing adjustments based on the level of documents they would like to see or based on limited understanding of our business, I would say to the Commission that these are real plans that need real funding. Without the funding, we would not be able to achieve improvements in reliability and performance goals as we have planned and over time reliability will deteriorate as the increasing load growth and customer additions stress our assets and available human resources. PacifiCorp will not be improving its standing in a number of benchmarks measured by PacifiCorp and those cited by Williams Consulting in their reports. While some may believe that the true value to customers is lower rates, I believe that what customers want and need are robust plans that continue to develop the type of strong system that this state deserves.

Q. Does this complete your rebuttal testimony?

A. Yes